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BULLETIN OF THE UNIVERSITY OF WISCONSIN

ECONOMICS, POLITICAL SCIENCE, AND HISTORY SERIES, VOL. 1, No. 2, PP. 117-273.

THE FINANCES OF THE UNITED STATES FROM
1775 TO 1789, WITH ESPECIAL REFER-
ENCE TO THE BUDGET

BY

CHARLES J. BULLOCK, A. B.

Fellow in Economics

PUBLISHED BY AUTHORITY OF LAW AND WITH THE APPROVAL OF
THE REGENTS OF THE UNIVERSITY

MADISON, WIS.
PUBLISHED BY THE UNIVERSITY
JUNE, 1895

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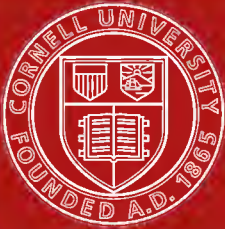
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PREFACE.

This essay has grown out of an investigation into the history of the budget system of the United States. In the course of this, it became evident that such a work could not begin with the year 1789; but that any study of origins must inquire into the history of the Confederation, and even into the experience of the colonial period. The evolution of a budget system by the Continental Congress could not be adequately treated without entering into a somewhat extended examination of all sides of the financial arrangements of that time. Such considerations have determined the form of the present essay, which is intended to serve as the basis for a detailed treatment of the national budget from the establishment of the present government.

The author is under obligations to a number of persons for kindnesses extended to him in the preparation of this essay. First he would mention Prof. Richard T. Ely, by whose encouragement, advice, and criticism he has profited at all stages of the work. Prof. Frederick J. Turner and Prof. William A. Scott have kindly read all of the manuscript, and offered many important suggestions. Prof. Charles H. Haskins and Prof. Victor Coffin have been frequently consulted, and from them valuable aid and criticism have been received. Most of the materials necessary for these investigations have been found in the library of the State Historical Society of Wisconsin. The officials of

the library have extended many privileges and courtesies without which it would have been impossible to complete this essay within the limits of a year well filled with other duties. Finally, to the material assistance of friends who may not be mentioned, a debt of the deepest gratitude is due.

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THE FINANCES OF THE UNITED STATES FROM
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INTRODUCTION.

BIBLIOGRAPHY.

Bancroft, *History of the United States*, IV. 190-192; V. 199-208; Cooley, *Principles of Constitutional Law*, 9 *et seq.*; Cohn, *System der Finanzwissenschaft*, sec. 131; Fiske, *Critical Period of American History*, 90-105; Hock, *Die Finanzen und die Finanzgeschichte der Vereinigten Staaten von Amerika*, 2-5; Jellinek, *Die Lehre von den Staatenverbindungen*, 184-187; Landon, *Constitutional History of the United States*, 40-82; McMaster, *History of the People of the United States*, I. 130-140; Poore, *Federal and State Constitutions of the United States*, Part I. Roscher, *System der Finanzwissenschaft*, section 163; Schouler, *History of the United States*, I. 12-23; Small, *The Beginnings of American Nationality*; Wagner, *Finanzwissenschaft*, I. sec. 39.

From the first years of the Revolution to the present time the finances of the United States have had a continuous development. In financial, as in political and constitutional history, the year 1789 marks no sharp break with the institutions of the earlier period; and much of the financial legislation of the First Congress has a close connection with the practice of the old Confederation, a fact which is of especial importance in the case of our budget system.

We must, therefore, go back to the year 1775, and to the Continental Congress, which met at Philadelphia on the tenth

of May, and proceeded to take into its hands the conduct of the struggle against Great Britain. During the next fourteen years a general Congress was the only organ of common action that existed in America; and it is to the character and influence of this body that we must look for the key to the study of the finances during this period.

It is sufficient for our purpose to note that the Congress of 1775 was essentially a revolutionary assembly, unlimited by legal restraints, but yet strictly dependent upon the support which it should receive from the people of the colonies. Instead of setting to work to form a centralized national government, as it might conceivably have attempted to do, the Congress proceeded to make recommendations to the various colonial assemblies, looking to them for the exercise of executive powers. The results were, that thirteen State governments were established, that the States soon asserted their own claims of sovereignty, and that the authority of Congress declined in a corresponding degree. Thus arose that fatal weakness of the general government which is the central fact in the financial, as in the political, history of these fourteen years.

From 1775 to 1781 the Continental Congress, with an authority based solely on the tacit acquiescence of the States, exercised such powers as they would allow it to possess. In this latter year Articles of Confederation were at last accepted by all of the States, and the position of the general government was formally recognized and defined. The exercise of all powers granted to the government was placed in the hands of a Congress, which, however, in matters of finance was made no more powerful than its predecessor. A brief mention of a few of the provisions of the Articles of Confederation will make apparent the weakness of the Congress in these most important matters.¹ Article VIII. provided that, "All charges of war, and all other expenses that shall be incurred for the common defence, or general welfare, and allowed by the

¹ See Poore's Federal and State Constitutions, Part I.

United States, in Congress assembled, shall be defrayed out of a common treasury, which shall be supplied by the several States, in proportion to the value of all land within each State granted to, or surveyed for, any person, as such land and the buildings and improvements thereon shall be estimated, according to such mode as the United States, in Congress assembled, shall, from time to time, direct and appoint. *The taxes for paying that proportion shall be laid and levied by the authority and direction of the legislatures of the several States, within the time agreed upon by the United States, in Congress assembled."*

In Article IX., Congress was empowered, "to ascertain the necessary sums of money to be raised for the service of the United States, and to appropriate and apply the same for defraying the public expenses; to borrow money or emit bills on the credit of the United States...." Finally, Article XII. declared that, "All bills of credit emitted, moneys borrowed, and debts contracted by, or under the authority of Congress, before the assembling of the United States, in pursuance of the present Confederation, shall be deemed and considered as a charge against the United States, for payment and satisfaction whereof the said United States and the public faith are hereby solemnly pledged."

Now Congress had, from the first years of the war, issued bills of credit and borrowed money; so that in these directions the Articles of Confederation gave it no new authority. But the all important power to levy taxes directly was left in the hands of the States. Congress could apportion among them the amounts necessary to be raised, but could not take the first step toward collecting the requisitions. Thus the general government possessed no real power of taxation; and was unable to place the finances of the Confederation upon a permanently sound basis, a work which was not accomplished until the present Constitution went into effect. From this weakness of Congress came a multitude of financial disorders, which more than once during the Revolution almost proved fatal to the success of the American cause, and which in the

years of peace served to throw upon the financial management of the old government a partially unmerited discredit.

But the fundamental weakness of the finances of the United States during this period was one that has been common to all such confederations. These associations have as their distinctive feature, and as their only organ of common action, a congress in which all the members of the union have an equal voice. But the central government can have no power of coercing either individuals, or the various states of the confederation; and can have, therefore, no substantial powers in matters of finance.¹ Thus all hope of financial unity and strength depends upon the willingness of the various members to contribute for the expenses of the union. But such a disposition seldom exists. Ordinarily, to use the words of Roscher,² "The jealousy existing between the sovereign members of the confederation, especially if they are of unequal strength, forbids not only all broadening of the purposes of the union except by unanimous consent, but also makes all permanent and considerable sacrifice. . . intolerable." This was certainly the case with the early American Union.

We have, then, as the subject of our study the finances of thirteen colonies that are passing through a stage of development intermediate between an earlier state of relative isolation and a later condition of completed federal union. The factors with which we have to deal are the weakness of the general government and the jealous, independent spirit of the individual units. From these there resulted in finance, as in everything else, limited concessions to the central authority and a "jealous reckoning of advantages and sacrifices" among the several members of the Confederation.³ Since the adoption of our present Constitution the worst features of this calculating spirit have in some measure passed away; but traces

¹ See Jellinek, *Die Lehre von den Staatenverbindungen*, 184-187; also Wagner, *Finanzwissenschaft*, I, section 39.

² *System der Finanzwissenschaft*, section 163.

³ See Cohn, *System der Finanzwissenschaft*, section 131.

of it linger even yet in the political life of the present day, as marks of a still imperfectly realized national unity.

Thus the old Confederation merely repeated the experience of similar unions. While the following chapters aim to present a rounded view of the finances of the United States during the years previous to 1789, they may also serve to illustrate the general features of the financial character of confederations.

PART I.

REVENUES AND EXPENDITURES.

CHAPTER I.

REVENUES OF THE GOVERNMENT.

(A) *Continental Paper Money.*

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American Almanac, 1830, 182, 183; *American State Papers*, Finance, I. and V.; Bolles, *Financial History of the United States*, I.; Breck, *Historical Sketch of the Continental Paper Money*; Bronson, *Historical Sketch of Connecticut Currency, Continental Money, and the Finances of the Revolution*; Elliot, *The Funding System*; Franklin, *Works*, II. and VIII.; Gallatin, *Sketch of Finances*, Writings, III. 121-123; Gouge, *Short History of Paper Money and Banking*; Hildreth, *History of the United States*, III.; Hock, *Die Finanzen und die Finanzgeschichte der Vereinigten Staaten von Amerika*; *Jahrbücher für Nationalökonomie und Statistik*, 1863, 392-396; Jefferson, *Works*, IX.; *Journals of Congress*, 1775-1788; Knox, *United States Notes*; Phillips, *American Paper Currency*; Ramsay, *History of the United States*, II.; Ross, *Sinking Funds*; Schuckers, *Finances and Paper Money of the Revolutionary War*; Sumner, *History of American Currency, The Financier and the Finances of the Revolution*; Walker, *Money*; Webster, *Political Essays*.

In any study of the national finances during the period previous to 1789, we are first concerned with the efforts of the general government to provide itself with the necessary financial resources. An account of the expedients resorted to for

that purpose must form the first part of any discussion of the financial arrangements of that time.

The emission of bills of credit was the first means of raising money to which the Continental Congress turned. The paper money thus issued was productive of such far reaching injury, and the policy of Congress in issuing it has been so harshly judged, that it may be well to refer in some detail to the history of these bills of credit.

It must not be overlooked that, when Congress met in May, 1775, the nature of the struggle which was beginning was appreciated by very few people in the colonies. Forcible resistance to Great Britain was at first attempted, not from a desire for independence, but in order to compel Parliament to change its policy toward America. Congress could not foresee the necessity of establishing permanent revenues for a national government, and the single financial problem that presented itself was that of providing a temporary income that should continue only until peace should be restored on the terms desired by the colonies. As a result, all of the early measures of Congress were of a temporary character; and we may here find a partial explanation of the fact that Congress did not try to seize upon the full powers necessary to a strong national government.

But the need of funds was pressing, even if it appeared at the first to be only temporary; and it was necessary to find some means of raising a sum of money which for the times and circumstances must have seemed very large. As a temporary government, Congress had no credit, and would have found difficulty in securing loans for the purpose of aiding a rebellion against the authority of Great Britain. For equally strong reasons, as we shall see, it was impracticable to attempt to tax the colonies which had been led into hostilities with the mother country not more on account of "taxation without representation" than through opposition to any taxation at all. The people of the colonies preferred paper money to taxes.¹

¹ Large quantities of paper money were issued in the colonies in the eighteenth century. The results of this had often been disastrous, but the colonists had not yet fully learned

They believed in the issue of notes that should circulate in all the colonies, and for the payment of which the colonies should be responsible. In order to exist, Congress had to be guided by the desires of the people; and, under such circumstances, determined to issue bills of credit, at the same time making all possible provision for the redemption of the notes. All things considered, it is not easy to see what other course could have been taken.

Undoubtedly, some of the members of Congress did hold unsound views on the subject of paper money. Pelatiah Webster has left us an account of a speech made by one delegate, who objected to burdening his constituents with taxes, when it was possible to send to the printer and get a wagon load of money, one quire of which would pay for the whole.¹ But there is nothing in the measures adopted by Congress that will justify the belief that the words of this speaker represented the opinions of a majority of the members of that body. On the contrary, the safeguards which Congress sought to throw around the emission of bills of credit, show conclusively that the dangers attending the use of paper money were fully appreciated.

The first issues were authorized in 1775.² Unquestionably, this was looked upon as a temporary measure; and it was not expected that a much larger issue would be needed.³ At the same time, Congress did not suppose that the notes would circulate at par unless means were provided for their redemption. Accordingly the bills were apportioned among the colonies on the basis of population, and Congress recommended that each colony should make provision for redeeming its quota by "laying and levying taxes. . . . toward sinking the Continental bills."⁴ If the notes had been so redeemed, this

the evils, of an irredeemable paper currency. References to some of these early experiments may be found on p. 225, and on p. 231. See also Phillips, *Historical Account of Paper Currency*, I.; Sumner, *American Currency*; Walker, *Mouey*, chap. XV.

¹ Political Essays, 7, note d. See also Bolles, I, 88.

² Journal of Congress, June 22, July 25, November 29, 1775.

³ Cf. Bolles, I, 24-41. Also Sparks's Franklin, II, 421; VIII, p. 323, 506-507. Ramsay, II, 307-309.

⁴ Journal of Congress, July 29, December 26, 1775. Also cf. Ross, 21.

measure would have amounted practically to a tax based upon population. Of course, such an assessment was unfair; but, as an accurate estimate of the wealth of the colonies would have been impossible at that time, this arrangement was as satisfactory as any that could have been devised. In this way the sum of \$6,000,000 was raised before the end of 1775, and these earliest issues at first circulated at par.¹ In some instances metallic money was turned into the treasury by patriotic individuals, in exchange for the bills of credit.²

But the need for money increased.³ No other source of revenue had been found; and, in February, 1776,⁴ \$4,000,000 of the bills was emitted. Congress had taken occasion⁵ again to urge upon the colonies the necessity of providing ways and means for sinking their respective quotas of the bills. But the people were not used to such heavy taxation as would have been necessary for this purpose; and, further, had come to look to the general government to make all provision for the conduct of the war. Thus further emissions of paper were necessary; and, before the end of the year, issues amounting altogether to \$19,000,000 had been authorized,⁶ while the bills had depreciated to less than seventy per cent. of their face value.⁷

After independence was declared,⁸ it became obvious that money must be raised no longer for a temporary purpose, but for the support of a permanent government. Congress saw that it would be impossible to rely solely on the issue of paper money, and made efforts to find other sources of revenue. It was still thought that to resort to taxation would be prema-

¹ Ramsay, II. 308; Sparks's Franklin, II. 431; Breck, Part I. 249; Gouge, 11; Sumner, Financier, I. 47-48. holds a different view.

² Breck, Part I. 249; Part II. 58. Journal of Congress, May 27, 1776.

³ Sparks's Franklin, II. 431, 432; Bolles, I. 42-44; Ramsay, II. 308.

⁴ February 17.

⁵ December 26, 1775.

⁶ Dates of issues were May 9, July 22, November 2, December 23.

⁷ See tables on p. 133.

⁸ Cf. Ramsay II. 309.

ture in the existing state of public sentiment; and, accordingly, in October,¹ 1776, Congress resolved to attempt to secure a loan of \$5,000,000; while shortly afterward a lottery was established.² Early³ in 1777 the States were urged to levy taxes for the support of the general government; but, as was to be expected, no attention was paid to such a general recommendation as this. These efforts failing to bring in the amount of money that was absolutely necessary, other emissions of bills of credit were ordered.⁴ These issues made the total volume of paper emitted during 1777 amount to 13,000,000; and, by the end of the year, the notes had depreciated until they were worth only one-third of their face value.

During 1777 some aid was received from the subsidies furnished by France,⁵ and a small amount of money was secured through the first French loan.⁶ From this last source a larger amount was realized during the following year. In November,⁷ 1777, Congress made the first regular requisition on the States; and asked that \$5,000,000 be raised by taxes during the ensuing year. But all these resources yielded only a small part of the funds required for 1778, and further emissions of paper were necessary during that year.⁸ Congress understood very well the effect of these issues, but the failure of its attempts to secure other sources of revenue made such a course unavoidable. During 1778 fourteen emissions⁹ amounting to \$63,500,000 were authorized, the amount of the issues naturally increasing as the value of the money declined. The transactions of the treasury during this time were almost exclusively carried on in the paper currency. From the appendix to the

¹ October 3.

² November 1.

³ January 14.

⁴ Dates of emissions, February 26, May 20, August 15, November 7, December 3.

⁵ See p. 166.

⁶ See p. 146.

⁷ November 22.

⁸ Cf. Ramsay, II. 309, 310.

⁹ Dates, January 8, 22; February 16; March 5; April 4, 11, 18; May 22; June 20, 30; September 5, 26; November 4; December 14.

Journal of Congress for that year, we learn that the expenditures were as follows:

Currency.....	62,154,842.63
Specie.....	78,666.60
Livres ¹	28,525.00

On this point Mr. Breck well says,² "So small an expenditure in metallic currency shows the powerful agency of paper in the belligerent operations at that critical period; performing, as it did, in spite of counterfeits and depreciation, the office of hard money."

This depreciation of the bills of credit had taken place in spite of the most strenuous efforts to keep the money circulating at par. At first the people had received the currency willingly,³ and during the last months of 1776 the depreciation was only very slight and gradual. The campaigns of 1776 and 1777 were not seriously affected by the decline in the value of the money.⁴ The first advances in prices,⁵ which began early in 1776, were probably due to the state of the market for goods included in the non-importation agreement, or, perhaps, in some cases, to the action of selfish or unpatriotic individuals. But, as the issues increased beyond the requirements of trade, an inevitable increase of prices began. This was looked upon by many as "immoral and unpatriotic, and deserving swift punishment."⁶ After seeking to punish by fine and imprisonment persons who should advance the price of commodities, the different States commenced to hold "price conventions," and to attempt to fix the prices of labor and of commodities.⁷ The first of these conventions was held at Providence in December, 1776. Congress recommended this plan to the other States, which, for the next five years, continued to attempt to control prices by law.

¹ The livre was worth a little more than eighteen cents.

² Part II. 61.

³ See Ramsay, II. 314.

⁴ Ramsay, II. 309.

⁵ See Sumner, *Financier and Finances*, I. 48 et seq.; Bolles, I. 117-120; Phillips, II. 219-226.

⁶ See Bolles, I. 158-159.

⁷ See Sumner, I. 55 et seq.; Bolles, I. 158-167.

But such attempts proved futile enough. Only a few patriotic people regarded these laws, while others refused to part with their commodities except at their own prices. As Ramsay says, "These laws in the first instance made an artificial scarcity, and, had they not been repealed, would soon have made a real one; for men never exert themselves unless they have the fruit of their exertions secured to them, and at their own disposal."

Further measures were adopted by Congress to check the depreciation. In December,¹ 1776, Washington was empowered to seize whatever supplies should be required for his army; to compel the owners to sell them at a reasonable price; and to punish those who should refuse to receive Continental money in payment for the supplies seized. A month later, further action was taken. As early as 1775 the different States had, on the recommendation of Congress, begun to pass laws making the Continental money legal tender in payment of debts. But there was no uniformity in these laws; and in January,² 1777, Congress was led to recommend the legislatures of the States to make the bills of credit full legal tender in discharge of all debts, and a refusal to accept the currency an extinguishment of any debt.

These legal tender laws enabled the Continental notes to work the extreme degree of hardship and injury that it is possible for such a depreciated currency to produce. When the laws were first adopted little injury was done, as the paper circulated, for a time, on a par with specie. But, as the depreciation increased, incalculable harm was caused both to industry and to public morals.³ At the opening of 1780 the evils had reached a climax. The paper money was almost worthless, all specie had long since been withdrawn from circulation, there was no longer any effective medium of exchange, and the people of the States were driven to barter.⁴

¹ December 27.

² January 14.

³ Ramsay has left us perhaps the most graphic account of the demoralization thus produced. See Ramsay, II, 316-318. See also Sumner, *Financier*, I, 80-81.

⁴ See Bolles, I, 133, for evidence on this point.

In March¹ of this year Congress finally advised the States to amend the legal tender laws, and this advice was soon followed. The repeal of these laws ended the worst of the abuses that had arisen from the emission of the Continental currency, but it was a long time before the injury that was done to public morals was entirely effaced.

But these were not the only difficulties with which Congress had to contend in its experiments with the bills of credit. Counterfeiting was largely carried on,² especially by the English,³ who sought in this way to injure the cause of the Americans. Besides this, large amounts of paper money had been issued by the States, and thus the point of inflation was the more quickly reached. In 1777⁴ Congress urged the States to cease to issue bills, and to withdraw those already issued; and this recommendation seems to have been very generally followed.⁵ The entire amount of these issues has been placed at \$209,000,000, an estimate which Mr. Knox⁶ considers too high.⁷ But whatever the effect of these State issues, it will be noticed that the withdrawal of these notes was commenced before the emission of the flood of Continental bills that were sent out in 1778 and 1779.

At the opening of the year 1779, in spite of the rapid depreciation of the paper money, the States had taken no effectual measures to redeem the notes already in circulation. At that time one dollar in paper was worth only twelve cents, and Congress repeatedly urged that the States should make provision for drawing in their quotas of the bills.⁸ By this time Congress had begun to make regular requisitions for money; but the response of the States was so tardy and so inadequate, that it was necessary to emit still more of the paper. The

¹ March 20.

² Sumner, *Financier*, I. 68-69.

³ Phillips, II, 70-71.

⁴ February 15, November 22.

⁵ See Bolles, I. 148; Hildreth, U. S., III, 446.

⁶ Knox, *United States Notes*, 10.

⁷ Cf. Jefferson's Works, IX. 260; Schuckers, *Finances and Paper Money of the Revolutionary War*, 127.

⁸ See Journal of Congress, January 2. January 13, 1779.

first four months of the year¹ saw the issue of \$65,000,000 more of the currency. This depreciated the bills beyond hope of recovery, and by July they were worth only five cents on the dollar. But all other resources were yielding only a small part of the funds needed to carry on the war, and still other issues were to follow. By September \$35,000,000 more had been issued; and the evil had become so great that Congress was led to the decision that an absolute limit to the emissions ought to be fixed, and that, in any case, the amount of bills in circulation should not exceed \$200,000,000. On September 13 an address was sent out to the States, showing that \$159,940,000 of the notes was then in circulation;² and stating that up to that date taxes had brought into the treasury only \$3,027,000; while \$36,761,000 had been received from domestic loans, and \$4,000,000 from foreign.

By December the amount of emissions for the year had been raised to \$140,052,000, and the limit of \$200,000,000 had been reached.³ At this time one dollar of the currency was worth less than three cents, and soon after the value so declined that one dollar in specie exchanged for eighty dollars of the paper money. Thus Congress had exhausted the sources from which it had hitherto derived the greater portion of its funds for defraying the expenses of the war.

The amount of notes authorized each year had been as follows:⁴

1775.....	\$6,000,000
1776.....	19,000,000
1777.....	13,000,000
1778.....	63,500,000
1779.....	140,000,000
	\$241,500,000

¹ Dates of issue, January 14; February 3, 12; April 2.

² From time to time notes had been withdrawn from circulation; see p. 81. Also it is possible that all the bills previously authorized had not been issued. The whole amount of emissions voted up to this time was \$200,000,000, and it is only on some such basis as this that the statement of Congress can be explained.

³ Dates of issue, May 5, June 4, July 17, September 17, October 14, November 17, November 29.

⁴ Cf. State Papers, Finance, V. 764.

Many of these had been withdrawn and exchanged, so that probably not more than \$200,000,000 was in circulation at any one time.

But this was not the whole burden which the people of the States had to bear in the form of a depreciated currency. As we have seen, paper money was issued by the individual States. In addition to this, many of the loan office certificates were, contrary to the expectation of Congress, placed in circulation.¹ It is safe to estimate that, at some periods during the war, there was in circulation at least \$300,000,000 of paper money. It will be apparent how excessive this amount was, when we remember that, at the time, there were not more than three million people in the States; while trade and commerce on any large scale can hardly be said to have existed.

The specie value of this enormous amount of paper can not be determined with accuracy. Hildreth estimated it at \$70,000,000,² a figure which all writers have held to be too large. Mr. Bronson has placed it at \$53,000,000,³ taking the Philadelphia rate of depreciation as a basis of computation. This amount seems to be too large, and Mr. Bronson presents none of his data. Jefferson assigned to the currency a specie value of \$36,367,000.⁴ Bayley⁵ accepted this as "approximate to the truth;" while Prof. Sumner⁶ says that it has no value. The general opinion has been that all these statements overvalue the paper money. In the following paragraphs an attempt is made to estimate in a conservative manner the value of the Continental currency, and to avoid the danger of placing it at too high a figure. Errors of this sort have impaired the results of all attempts to compute the cost of the Revolution.

Since the government's expenditures in paper money were very unequally distributed in the various parts of the country,

¹ Bolles, I. 260, 261.

² History of the United States, III. 446.

³ Historical Sketch of Connecticut Currency, 150.

⁴ Works, IX. 259.

⁵ History of the National Loans, 325.

⁶ Financier and Finances of the Revolution, I. 98.

and the circulation of the currency was comparatively slow, there was no general uniformity in the depreciation. The following table has been constructed from the rates of depreciation adopted by law in the various States.¹ The States are grouped according to the extent of the depreciation in each. Massachusetts, Connecticut, and New York form the first group; Pennsylvania, Delaware, New Jersey, Maryland, and Virginia form the second; while the Carolinas constitute the third. In each group the lowest and highest rates of depreciation in any State are given. For purposes of comparison, there has been placed in a fourth column the scale of depreciation adopted by Congress,² which did not show the real extent of the depreciation. In the fifth column are to be found some rates taken from the books of a Philadelphia merchant.³ In the sixth are shown the figures used by Jefferson in his estimate;⁴ and in the last column are given the highest rates of depreciation found in any of the States. These highest rates are used in forming this estimate of the value of the money, since the object is to avoid an over-statement. Such tables of depreciation might easily conceal part of the truth, and not allow for the full extent of the depreciation; while they would not be likely to overestimate it. By selecting the highest rates in any of the States the chance of error at this point is reduced to a minimum. Mr. Bronson's method of taking the Philadelphia rate as the basis of computation does not differ greatly from the procedure here followed, since the depreciation was naturally greatest at the seat of the federal treasury. The method here adopted has another advantage. It is possible that even the highest rate found in any of these State tables may not always give the full amount of the depreciation. But any error here may be counterbalanced by another consideration. The expenditures of the government were made in var-

¹ These tables may be found in *State Papers, Finance*, V. 772 et seq. See also Phillips, II, 212.

² June 23, 1780. See *State Papers, Finance*, V. 765-771.

³ Phillips, II, 217; Gouge, 11.

⁴ Jefferson's Works, IX, 259.

ious States, and all of them could not have been affected equally by the depreciation. In such cases there will occur in this estimate an error of undervaluation, and this fact will render it improbable that the computation will result in an over-statement of the value of the money.

	Mass., Conn. and New York.	Penn., N. J., Del., Md., and Va.	N. Carolina and S. Carolina.	Scale adopted by Cong- ress.	Philadel- phia mer- chant.	Jeffer- son.	High- est rate.
Jan., 1777.	\$1 05 ¹	\$1 20—\$1 50	.....	.....	\$1 25	.....	\$1 50
April	1 12	2 50—3 10	\$1 08—\$1 50	.....	2 00	.....	3 10
July..... ..	1 35	2 25—3 00	1 39—2 00	.....	3 00	.....	3 00
October	1 09—\$2 75	3 00 ²	1 85—2 50	91 pr. ct.	3 00	.....	3 00
Jan., 1778.....	\$1 46—\$3 25	\$4 00	\$2 21—\$3 50	68 pr. ct.	\$4 00	\$4 00	\$4 00
April.	2 03—4 00	5 00—\$6 00	3 17—4 00	49 pr. ct.	6 00	6 00	6 00
July..... ..	3 03—4 25	4 00—5 00	3 54—4 00	33 pr. ct.	4 00	4 50	5 00
October	4 00—5 00	5 00	4 05—4 75	21 pr. ct.	5 00	.....	5 00
Jan., 1779.....	\$7 42—\$7 96	\$8 00	\$6 00—\$7 61	13 pr. ct.	\$7 00—\$9 00	\$8 00	\$8 00
April..... ..	11 04—11 56	16 00—\$17 00	9 66—10 00	9 pr. ct.	12 00—22 00	17 00	17 00
July..... ..	14 77—15 48	19 00—21 00	14 57—15 00	6 pr. ct.	18 00—20 00	20 00	20 00
October	20 30—21 51	28 00—30 00	20 40—25 00	4 pr. ct.	30 00	30 00	30 00
November.....	23 08—24 33	36 00—38 50	25 96—27 00	4 pr. ct.	32 00—45 00	38 50	38 50
December	25 93—27 41	40 00—41 50	30 00—32 33	3.7 pr. ct.	38 00—45 00	.....	41 00
Jan., 1780.....	\$29 34—\$31 15	\$40 00—\$42 00	\$32 00—\$37 75	3.3 pr. ct.	\$40 00—\$45 00	.....	42 00
March..... ..	37 36—40 00	60 00—61 50	40 00—46 59	2.6 pr. ct.	60 00—65 00	.....	61 50

It will be noticed that these tables recognize no depreciation before January, 1777. But it had begun by the middle of 1776; perhaps, even a little earlier. Prof. Sumner says³ that the room for the circulation of Continental money was exceed-

¹ This means that \$1.00 in specie was worth \$1.05 in currency. In the fourth column is given the percentage which the value of currency bore to the value of specie. Of the States in this first group, Massachusetts was the only one that recognized the depreciation until October, 1777.

² For this month the same rates of depreciation are given in all the States in this group

³ Financier, 1, 47-48.

ingly small, and that depreciation must have begun almost immediately. But he gives no clear case of an advance of prices due to depreciation before about the middle of 1776. On the other hand, the statements¹ of Gerry, Franklin, Paine, Jefferson, and Ramsay are all to the effect that the earlier issues circulated at par; and in this view later writers have generally concurred. The amount of the depreciation recognized in January, 1777, shows that the decline in the value of the money must have begun several months before that date, since all writers agree that the depreciation was at first gradual. Probably it is safest to place the beginning of the general rise of prices at about the middle of 1776, and this is the method followed in this estimate.

In estimating the specie value of the Continental issues use has been made of the table of emissions prepared by Joseph Nourse in 1828.² By comparison with the Journals of Congress this table will be found to be entirely correct, with the possible exception of one issue amounting to \$500,000. This issue was ordered by Congress November 2, 1776, but it is possible that the notes were never placed in circulation.³ For this reason Mr. Nourse has excluded it.⁴ Applying to this table of emissions the highest rate of depreciation found in any of the States, a safe estimate may be obtained. Allowance has been made for the necessary delay in the issue of the notes by assigning to each emission the highest rate of depreciation found in any of the States two months after the resolve of Congress authorizing the issue.⁵ The estimate is as follows:

¹ See references on p. 125. Also Gerry's statement in *Annals of Congress*, II. p. 1176, First Congress.

² *State Papers, Finance*. V. 764.

³ See Phillips, II. 57; Sumner, *Financier*, I. 98.

⁴ Various other statements have been made regarding the amount of the Continental issues. Some have placed the amount as high as \$357,000,000, but such estimates include the re-issue of bills paid into the treasury after 1780. See Gouge, 10; Elliot, 11; Sumner, *Financier*, I. 88.

⁵ This method will not lead to an over-estimate of the value of the notes. But, in any case, up to January, 1779, the depreciation was quite gradual, as the table shows. Therefore, up to the time when the value of the money had become very small, one might select any period of from one to three months without materially affecting the result.

DATE OF ISSUE.	Amount.	Depreciation.	Specie Value.	Total Specie Value.
1775.	\$6,000,000	At par.	\$6,000,000	\$6,000,000
1776.				
February.....	4,000,000	At par.	4,000,000	.....
May.....	5,000,000	1.25	4,000,000	.....
July and August.....	5,000,000	1.25	4,000,000	.....
November and December.....	5,000,000	1.50	3,330,000	15,330,000
1777.				
February.....	5,000,000	3.10	1,600,000	.....
May.....	5,000,000	3.00	1,660,000	.....
August.....	1,000,000	3.00	330,000	.....
November.....	1,000,000	4.00	250,000	.....
December.....	1,000,000	5.00	200,000	4,040,000
1778.				
January.....	3,000,000	5.00	600,000	.....
February.....	2,000,000	6.00	330,000	.....
March.....	2,000,000	5.00	400,000	.....
April.....	6,500,000	5.00	1,300,000	.....
May.....	5,000,000	5.00	1,000,000	.....
June.....	5,000,000	5.00	1,000,000	.....
July.....	5,000,000	5.00	1,000,000	.....
September.....	15,000,000	6.00	2,500,000	.....
November.....	10,000,000	8.00	1,250,000	.....
December.....	10,000,000	10.00	1,000,000	10,380,000
1779.				
February.....	10,000,000	17.00	580,000	.....
April.....	5,000,000	20.00	250,000	.....
May.....	10,000,000	20.00	500,000	.....
{ January and May.....	50,000,000 ¹			.....
{ Say that new issues were.....	40,000,000	20.00	2,000,000	.....
June.....	10,000,000	24.00	410,000	.....
July.....	15,000,000	24.00	620,000	.....
September.....	15,000,000	38.00	390,000	.....
October.....	5,000,000	41.00	120,000	.....
November.....	20,050,000	50.00	400,000	5,270,000
	\$241,500,000			\$41,020,000

¹ A part of this issue was for the purpose of exchanging earlier emissions of May 20, 1777, and April 11, 1778. See Journal of Congress, May 7, 1779. These two issues amounted to \$10,000,000, and accordingly we have placed the new issue at \$40,000,000.

The foregoing table allows for \$10,000,000 of exchanges of new bills for old. The amount of other withdrawals can not be ascertained with any certainty. In the address of September 13, 1779, Congress stated that \$159,948,000 of the bills was then emitted and in circulation. Now the total amount of the issues authorized previous to that date was \$201,500,000; and, if this statement of Congress is to be trusted, it would seem that \$41,500,000 of the earlier issues had been withdrawn or never placed in circulation. The Journal of Congress enables us to account for only \$10,000,000 of withdrawals. If we follow the statement of September, 1779, we must deduct \$31,500,000 more from the total of the emissions. These withdrawals, or failures to issue the full amount of notes authorized, could not have occurred before 1779 because the statistics of the advances made at the treasury from 1775 to the end of 1778 show that all of the \$101,000,000 of notes authorized during that time must have been in use.¹ If we assign to the \$31,500,000 withdrawn or never issued the depreciation of ten to one which prevailed at the time that the first issues of 1779 were authorized, we shall have to subtract \$3,150,000 from the estimate of the specie value of the bills of credit actually issued. Thus the estimate of the total income from the Continental paper money will be \$37,870,000, if we accept as correct the statement of Congress regarding the amount of bills in circulation in September, 1779. This is a question which we have no means of determining, but it would seem to be safe to place the specie value of the money issued at not less than \$37,800,000; while, if the statement of Congress is rejected, the estimate would be \$41,000,000. In other parts of this work it is thought best to use the smaller estimate, which, it would seem, does not overstate the income derived by Congress from this source.

At the opening of 1780, when a dollar of the paper money was worth less than two cents, Congress was obliged to admit the fact of depreciation. Up to this time, that body had repeatedly pledged the public faith to redeem in full every dol-

¹ See Elliot, 10 and 11, for Hamilton's statement of the advances at the treasury.

lar of the paper; but in March¹ a resolution was passed which provided for the redemption of the bills of credit at one-fortieth of their face value. In order to draw in the old bills a tax of \$15,000,000 a month for thirteen months, payable in the old emissions, was levied upon the States. In payment of this tax, silver and gold were made receivable at a ratio of one dollar in specie to forty in currency. As soon as paid in, the old money was to be destroyed, and replaced by bills of a new emission. These new bills were to be issued in an amount not exceeding one-twentieth of the face value of the old issues. Six-tenths of these new emissions were to go to the States, and the rest were to be at the disposal of the United States. The new bills were to be redeemable in specie within five years, to bear interest at five per cent, and to be receivable for taxes at the same rate as specie.

Obviously this was an act of practical repudiation. The bills were first declared to be worth only one-fortieth of their nominal value; and then were made receivable only in payment of an extraordinary tax, imposed for the sole purpose of withdrawing them from circulation. It may be true that this action was inevitable, and that Congress had good reason to despair of its ability ever to redeem the notes at their face value. It certainly is a fact that it was beyond any human power to repair the losses suffered by those persons through whose hands the money had at first passed; and that the attempt to redeem the notes in full would have resulted rather in benefiting speculators than in compensating the original losers. But these extenuating circumstances do not alter the fact of repudiation. The real purposes of the resolution were, to reduce the volume of currency to a reasonable amount, to provide the States with money which should enable them to meet the requisitions of Congress, and to supply the general government with additional funds. These ends were not fully realized from the measure on account of the partial non-compliance of the States with the requirements of the resolution ordering the tax. The bills of the "new tenor" soon depreci-

¹ March 18, 1780.

ated, but they continued to circulate until after 1790, when they were received in subscription to the stocks created in order to fund the national debt. From the report of May 11, 1790, it appears¹ that about \$4,000,000 of these new bills was actually issued. Of these the government received \$1,592,000 as its proportion, of four-tenths.²

After this time the old notes disappeared from circulation and specie quickly re-appeared.³ Under the requisition of March, 1780, \$119,400,000 of the notes was finally paid in and destroyed. In 1791 it was estimated that \$78,000,000 was still outstanding. Under the funding act of August 4, 1790, \$6,000,000 of this amount was funded at the rate of one cent on the dollar.⁴ The rest seems to have remained in the hands of people who held it after the time fixed by the funding act, hoping that ultimately the notes would be redeemed in full.

Such is the history of the paper money of the Revolution. The loss inflicted upon the people of the United States by its depreciation can never be fully estimated. Of course the depreciation amounted to nothing less than a tax upon those who were unable to protect themselves from such a loss; and, manifestly, this was a tax of the most unjust and objectionable sort.⁵ But whatever the loss, and whatever the injustice caused in this way, the fact remains that the issue of the paper money made possible the successful termination of the struggle undertaken against Great Britain. By this means Congress was enabled to carry on the war from 1775 to 1780, a period during which all other sources of revenue would have furnished only a small part of the needed resources.⁶ "How else could the war have been carried on?"

Those writers who condemn *in toto* the issue of bills of credit,

¹ State Papers, Finance, I. 54.

² On the character and effects of this act of March, 1780, see Ramsay, II. 312; Bolles, I., 135.

³ See Sumner, I. 98-100.

⁴ Elliot, Funding System, 12.

⁵ See Sumner's Hamilton, 151.

⁶ Further light is thrown on this subject in the discussion of loans and taxation in the following chapters.

have generally fallen into the error of blaming Congress for not doing something that lay wholly beyond its powers. Thus Mr. Bronson, in asserting that taxation should have been instituted from the start, and that independence was won, not by paper money, but rather in spite of it, says, "A firmer will, with a greater readiness to make sacrifices, would have opened a way." But the "greater readiness to make sacrifices" did not exist, and Mr. Bronson's criticism falls to the ground. Had "a firmer will" been shown, had Congress attempted to levy taxes in 1775, the way would have been effectually closed, and not opened. Such a course would have occasioned a popular outcry that would have destroyed the authority of Congress, and rendered impossible the continuance of the war.¹

But the experience of the country with the Continental bills of credit was sufficiently bitter to serve as an effectual lesson of the evils attending an irredeemable paper currency. It is true that, after the close of the war, the paper money mania again broke out in certain States; but, by 1787, we find in the Federal Convention an almost unanimous opposition to the proposition to allow either the general government or the States to issue bills of credit.²

An overwhelming vote prohibited the States from issuing paper money.³ In the first draft of the Constitution the national legislature was given the right "to emit bills on the credit of the United States."⁴ But the Convention, by a vote of nine States to two, decided to strike out this clause, after a debate that showed conclusively that it was intended to prohibit absolutely the federal government from issuing such bills.⁵ All the evidence shows that the members thought that this purpose was accomplished.

This was never questioned during the lifetime of the men

¹ Compare the considerations advanced on pp. 118, 123, 152.

² Curtis, *History of the Constitution*, II, 328, 330, 364; Bancroft, *History of the United States*, VI, 175-176, 303-305, *Plea for the Constitution*, Part III.; Fiske, *Critical Period*, 273-276.

³ Elliot, *Journal of the Convention*, 270; Gilpin, *Madison Papers*, 1442, 1443.

⁴ Elliot, 226; Gilpin, 1232.

⁵ See Elliot, 245; Gilpin, 1343-1346; Bancroft, *Plea for the Constitution*, 44 et seq.

who witnessed the adoption of the Constitution. For seventy-five years "no suggestion of the existence of such a power to make paper a legal tender can be found in the legislative history of the country."¹ In the dark hours of a civil war legal tender paper was again issued by Congress; and, twenty years later, the Supreme Court completed the undoing of the work of the Federal Convention by declaring such issues constitutional even in time of peace.² The wonders of modern constitutional interpretation enabled the Court, twice altering its earlier decisions on this subject, to reject contemporary testimony, to brush aside a weight of legal authority undisputed for nearly a century, and to hold that the framers of the Constitution either did not give expression to their real intentions, or failed to embody them in effective constitutional provisions.³

¹See speech by Roseoe Conkling, Congressional Globe, Second Session of XXXVII. Congress, 634, 1861-1862.

²Julliard v. Greenman, 110 U. S. R., 421. For the earlier decisions see Hepburn v. Griswold, 8 Wall. 603; Knox v. Lee, 12 Wall. 457.

³For this change in constitutional interpretation compare Cooley, Principles of Constitutional Law, first edition, 80, with the second edition, 82-83. The most noteworthy attack on the decision of the Court is that by Bancroft in his Plea for the Constitution. The legal tender decisions have been defended by Miller, Lectures on the Constitution of the United States, 135-144. 524-531; McMurtrie, Observations on Mr. Bancroft's Plea; James, The Legal Tender Decisions. This last work contains, on p. 80, references to discussions in law journals.

CHAPTER II.

REVENUES OF THE GOVERNMENT (Continued).

(B) Domestic and Foreign Loans.

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Section I.—Domestic Loans and Indebtedness.

In 1775, when the second emission of paper money was proposed, Franklin urged Congress to borrow the necessary funds,¹ rather than resort to another issue of bills of credit. This suggestion, however, was not followed. As a temporary body, it would not have been easy for Congress to secure a loan; and it was not until after independence had been de-

¹ See Franklin's Works, VIII. 333.

clared, that this expedient was resorted to.¹ Even then the measure encountered considerable opposition; but by October the danger of depreciation of the paper money had become so great that Congress voted² to borrow five million Continental dollars at four per cent. interest. A loan office was opened in each State; and a commissioner, appointed by the State, was placed in charge of each office and authorized to receive subscriptions. But the rate of interest was placed too low, and this first attempt to secure a loan met with but little success.

In January and February,³ 1777, Congress decided to borrow \$15,000,000 more through the loan offices. Shortly afterward,⁴ the rate of interest was raised to six per cent., and the receipts from the offices began to increase. During this year the first foreign loan was secured in France. This led Congress to resolve⁵ that the interest that should in the future arise on loan office certificates issued in pursuance of former resolutions, should be paid annually in bills of exchange drawn on the American commissioners in Paris. It was hoped that, by using the French loan to insure the payment of interest on the domestic debt, \$20,000,000 might be borrowed at home, and further emissions of paper made unnecessary. This measure did lead to an increased willingness to lend to the government,⁶ but the issue of bills of credit was not avoided.

The month of November⁷ saw the loan office system extended in the States, in the hope of thereby facilitating the progress of the loans. In the following years other expedients were resorted to in order to increase the amount of money secured through the offices. At different times⁸ Congress attempted to secure further domestic loans, but its efforts were

¹ See Bolles, I. 45-49.

² October 3, 1776.

³ January 14 and February 22.

⁴ February 26.

⁵ September 9.

⁶ See State Papers, Finance, I. 27; Elliot, 53.

⁷ November 22.

⁸ See Journal of Congress, February 3, 1779; September 5, 1780; June 11, 1779.

only partially successful. The total amount of money secured through the loan offices was as follows:¹

PERIODS.	Amount of Currency.	Specie Value.
October, 1776, to September, 1777	\$3,787,000	\$3,787,000
September, 1777, to March, 1778.....	3,459,000	2,538,000
March, 1778, to the close of the loan offices.....	59,830,000	5,146,000
Total	\$67,077,112	\$11,472,802
Borrowed in new emissions, in 1781, something more than.		112,704
Total		\$11,585,506

The specie value of the bills of credit paid to the government under these loans was fixed by a resolution of Congress of April 18 and June 28, 1780. The holders of the loan office certificates were to be paid the specie value of the certificates at the time of their issue, the rate of depreciation being determined by the table which has been already given.² As we have seen, this table does not show the full amount of the depreciation; and consequently the holders of the loan certificates lost nothing by the action of Congress in repudiating the paper money. Since the table of the amounts of money loaned the government has been based upon the scale of depreciation established by the act of 1780, it is evident that the specie value of the total loans has been placed at too high a figure. But it is, of course, impossible to correct the estimate, which must, therefore, be taken as given by Hamilton.

Besides these regular loans, the financial exigencies of the government led to the contraction of other forms of domestic debt. Congress authorized quartermasters, commissaries, and other officers to issue certificates of indebtedness for supplies taken for the army and for other debts contracted. As was to be expected, this loose system led to widespread confusion, and even corruption.³ Morris opposed it as "extremely wasteful and expensive," and sought to obtain supplies by contract,

¹ See State Papers, Finance, I. 27; Elliot, 53.

² See p. 133.

³ See Bolles, I. 281 et seq. Sumner, Financier, I. 272, 273.

a reform which Congress, in 1781,¹ allowed him to institute. In other instances forced loans had been authorized, and receipts given for supplies thus seized by the army. In all these ways there had been issued by the close of the war a large number of certificates of indebtedness. Hamilton, in the statement of the cost of the war² that he made in 1790, placed the total outstanding obligations of this nature at \$16,708,000. This agrees very closely with the items of this character included in his statement of the domestic debt in his report of January, 1790.³

In 1782, upon the recommendation of Robert Morris,⁴ Congress attempted to fund the domestic debt, and to provide means for its extinguishment.⁵ Although Congress had resolved in 1781⁶ to have the domestic debt reduced to its specie value, little had been done in this direction; and the work of settling the accounts of the States and of individuals went on very slowly. In December,⁷ 1782, Congress passed a resolution to the effect that any surplus above the sum necessary to pay the interest on the whole of the national debt, that should arise from the funds granted by the States for that purpose should form a sinking fund to be appropriated to the payment of the principal of the debt. This resolution, however, was of no value, as the national finances were not in a condition to make a surplus probable, or even possible.

Early in the following year,⁸ Congress resolved that any attempt to pay the principal of past debts would obstruct the service of the government; and that all efforts should be confined to providing for the payment of interest. Three months later,⁹ however, after protracted consideration of the finan-

¹ July 10.

² Elliot, 10.

³ State Papers, Finance, I. 27. Elliot, 53. Compare the statements of debt given in Journals of Congress for April 20, 1783, and April 27, 1784.

⁴ Sparks, Diplomatic Correspondence, XII. 211.

⁵ See Ross, 25-28; Bolles, 317-319.

⁶ May 22.

⁷ December 16.

⁸ January 30.

⁹ April 18.

cial situation, an act was passed which would have gone far toward making adequate provision for the debt, if the States had only been willing to invest Congress with the necessary authority. According to this plan, the national government was to have the power to levy import duties for a period of twenty-five years; while the States were to levy special taxes amounting to \$1,500,000 annually. The revenue from these sources, together with the proceeds of the sales of the public lands ceded by the States, was to be applied to the payment of the interest and principal of the debt. Through the opposition of Rhode Island this measure failed, and it remained impossible for the Congress of the Confederation to make any provision for the payment of the debt. After March 1, 1782,¹ it became impossible to pay even the interest on the loan office certificates. For these arrearages of interest, indents, or certificates of indebtedness, were issued by the loan officers.² These arrearages continued to accumulate until 1789; although Congress, by making the indents receivable for taxes, contrived to draw in a portion of these obligations incurred for interest.

From Hamilton's report of January, 1790,³ has been taken the following statement of the domestic debt, as it existed on March 3, 1789:

Debt registered on March 3.....	\$4,598,462
Outstanding certificates of indebtedness....	12,349,419
Loan office certificates.....	11,219,523
Debt due foreign officers.....	186,427
	\$28,353,832
Deduct money received from sale of lands and other property ⁴	960,915
Total principal of domestic debt.....	\$27,392,917
Arrearages of interest to December 31, 1790 ⁵	13,030,168
Total domestic debt.....	\$40,423,085

¹ See resolution of September 9, 1782.

² See Bolles, I. 288.

³ State Papers, Finance, I. 27-28 Elliot, 53, 55.

⁴ See p. 170.

⁵ Hamilton gives the arrears of interest up to 1791. Gallatin computes them up to the

Before leaving this subject, it is necessary to refer to the transactions of the government with the Bank of North America. Robert Morris secured valuable assistance from this institution, which supplied the treasury with considerable sums of money during 1782 and 1783.¹ All of these loans ran for a short time only, and were soon repaid, so that the income received from this source was of a very temporary character. From the Report of 1790² has been taken the following statement of these transactions:

	Amounts Borrowed.	Repayments.
1782.....	\$929,308.42	\$865,394.58
1783.....	\$349,534.13	\$388,961.01
1784.....	.....	Balance repaid.
Total	\$1,272,842.55	.....

Of these sums, the Bank of North America furnished \$1,249,975.59, and the so called National Bank, \$22,866.96.

Section II.—Foreign Loans.

In the first years of the war the colonies had naturally sought aid from those European powers that were likely to entertain hostile feelings toward Great Britain. It was not until February 6, 1778, that a formal treaty of alliance was concluded with the French government; but, in both of the preceding years, aid was secretly furnished by France. In 1776 the first subsidy was granted to the United States,³ and the following year the first loan was obtained from the French "farmers general."⁴ It was on the strength of the foreign

end of 1789, and places them at \$11,493,853. His statement of the principal of the debt differs slightly from that of Hamilton. We have followed Hamilton, since he presents best the different parts of the principal. See Gallatin's Writings, III. 126.

¹ See Sumner, II. 21-35, 183-192; Bolles, I. 100-101, 273-275, 344.

² Banker's Magazine, 1860, 582, 583, 585.

³ See Bayley, 299-304.

⁴ Bayley, 304, 305, 468.

loans that Congress voted¹ to draw bills of exchange on the American commissioners in Paris for the payment of interest on the domestic debt. Up to March 1, 1782, when interest payments ceased, \$1,663,992 had been applied in this way.²

In 1778 a new loan was secured in France; and, during the next four years, considerable sums were received from that country.³ In 1781 a small loan was obtained from Spain; in the next year a loan was secured in Holland; while in 1783 another was advanced by France. Thus from 1777 to 1783 foreign loans yielded the following amounts, by years:*

1777.....	\$181,500
1778.....	544,500
1779.....	181,500
1780.....	726,000
1781.....	1,866,566
1782.....	2,657,451
1783.....	1,673,000
	<u>\$7,830,517</u>

Of this amount, France furnished \$6,352,500; Holland, \$1,304,000; and Spain, \$174,017. A large part of this money was expended in France, and never passed through the treasury. Hamilton placed this amount at \$5,000,000;⁵ but this estimate must include some part of the French and Spanish subsidies,⁶ as well as the loans proper. The accounts of the government⁷ show that, from 1781 to the end of 1783, \$574,521 in specie was shipped to this country; while bills of exchange were drawn to the amount of \$3,063,677. This includes, however, an overdraft of \$350,000.⁸ As we have seen, \$1,663,000 of these sums brought into the treasury went to pay the interest on the loan office certificates; and the rest was devoted to defraying the expenses of the war.

¹ September 9, 1777.

² See State Papers, Finance, I, 28.

³ For the history of these loans see Bayley, 305-311, 393-396.

⁴ This table is taken from Bayley, 468.

⁵ Elliot, 10. Cf. Journal of Congress, September 30, 1788.

⁶ See pp. 165, 166.

⁷ See Report of 1790, Banker's Magazine, 1860, 581-583.

⁸ See Bayley, 311-312.

But, even after the close of the Revolution, the government was unable to meet its ordinary expenses and pay the interest on the public debt. Accordingly loans were repeatedly sought in Holland,¹ which country assisted Congress through the remaining years of the Confederation. Much of the money so obtained was expended for interest on earlier foreign loans,² and for the expenses of the European representatives of the United States.³ Only a small portion of the loans seems to have been expended in this country. The accounts show that, from 1784 to September 12, 1789, the bills of exchange drawn on Holland amounted to only \$333,117.37.⁴ After 1784 the interest on the foreign debt fell into arrears, while installments due on the principal, to the amount of \$1,388,888,⁵ remained unpaid, in spite of the pressing needs of the bankrupt French treasury. In 1790 the whole burden of foreign indebtedness contracted by the old Congress stood as follows:

Amounts borrowed and received from	
1777-1783.....	\$7,830,517
Amounts borrowed and received from	
1784 to 1788.....	1,896,000
Amounts borrowed and received to Octo-	
ber, 1789.....	400,000
	\$10,126,517
Amount redeemed.....	27,810
Total principal of foreign debt.....	\$10,098,707
Arrearages of interest up to January 1,	
1790.....	1,640,071
Balance due to France for military sup-	
plies.....	24,332
Total foreign indebtedness ⁶	\$11,763,110

¹ See Bayley, 311-316.

² Bayley, 313.

³ Bayley, 315.

⁴ See Banker's Magazine, 1860, 584-591.

⁵ State Papers, Finance, I. 26-27; Elliot, 52.

⁶ See Bayley, 325, 468; State Papers, Finance, I. 26-27; Elliot, 51, 52. In this statement of the principal of the debt Bayley has been followed. Hamilton's statement is \$28,000

Section III.—The Debts of the States.

A view of the Revolutionary finances is not complete without some mention of the debts contracted by the individual States in their efforts to meet the financial burdens thrown upon them by Congress. So far as these debts were incurred for this purpose, they find a legitimate place in a discussion of the national finances; the more so, since they were ultimately assumed by the United States.

Reference has been made elsewhere to the difficulties encountered by the States in establishing effective systems of taxation. For this reason they were obliged to incur debts in order to meet the obligations imposed upon them by the general government during the war. These debts were of a varied character, consisting of loans secured at home and abroad, bills of credit of the new tenor that were still unredeemed, State paper money, State notes issued to meet the expense of equipping militia and for balances of pay due to the army, certificates of interest on the State debts, and various other obligations.¹ Their total amount was estimated by Hamilton at \$25,000,000.² The funding act of 1790, which provided for the assumption of these debts by the United States, stipulated that none of these obligations should be assumed that should appear to have been issued for any other purpose than the prosecution of the war; and limited the amount of the assumptions to \$21,500,000.³ After the debts were finally adjusted on this basis, \$18,271,787 was assumed by the national government.⁴ It is probable, therefore, that this last

less. The arrearages of interest are given here as stated by Hamilton. Bayley places them at \$1,760,277. This difference is so considerable that it seems best to follow the older statement. Gallatin says that the arrears were about \$1,700,000. These differences it has been impossible to explain. See Gallatin, Writings, III. 124.

¹ See State Papers, Finance, I. 28-31; Bolles, II. 26; Gallatin, III. 123. On this whole subject see Hildreth, IV. 155; Schouler, I. 131-132; Bolles, II. 25-29.

² State Papers, Finance, I. 19.

³ Statutes at Large, I. Act of August 4, 1790, section 13.

⁴ See Gallatin, Sketch of Finances, Table XV., Writings, III.

figure represents most closely the amount of State debts contracted for the purpose of carrying on the war. In the final settlement of the accounts, however, certain balances, due to those States which had paid to the government more than their share of the expenses of the war, were added to these debts; and the total amount of assumptions was thus raised to \$21,789,370.

CHAPTER III.

REVENUES OF THE GOVERNMENT (Continued).

(C) *Taxes.*

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In the discussion of the early issues of the bills of credit, it was pointed out that, although the Congress of 1775 was a revolutionary body, it was impracticable for it to attempt to levy taxes. The whole history of taxation in the colonies justifies this conclusion.

Up to the opening of the Revolution, there had been little occasion for an extensive system of taxation. The whole ex-

pense of the civil establishments of the colonies could hardly have exceeded \$300,000 a year,¹ and a portion of these expenditures was met by other means than taxes.² But, more than this, the economy of the colonies was relatively isolated, and comparatively few social ties existed. Beyond the enforcement of contracts and the settlement of disputes by law, individuals received few tangible benefits from the colonial governments; and were inclined to look upon the colony as an external force which entered into the life of the local units only for the purpose of collecting money. Further still, the payment of taxes usually called for money, of which the people in the rural districts had but little. All these circumstances made it difficult even for the State governments established after 1775 to institute State taxation on a scale commensurate with the needs of the time.

In view of these facts it is not strange that Congress considered it inexpedient to attempt to tax the colonies. In the instructions given to Franklin in October, 1778,³ Congress explained that in 1775 America had never been taxed heavily, or for a long period of time. Also, it was stated that, since the contest was upon the very question of taxation, the imposition of taxes, unless from the last necessity, would have been madness. In this position Congress would seem to have been justified. The habit of paying taxes is not easily acquired or quickly formed, as the history of our own and other countries has repeatedly testified. Indeed, it is not improbable that the attempt to impose a burden of war taxation upon the colonies in 1775, might have led to the overthrow of the Congress itself.

But the necessity of taxation by the States was early appreciated by Congress, which exercised whatever influence it possessed in this direction. The first bills of credit emitted were apportioned among the colonies, and Congress recommended that the provincial assemblies should provide by tax-

¹ Sumner, *Financier*, I. 25.

² Ely, *Taxation*, 105-115.

³ See *Secret Journals of Congress*, II. 118.

ation for sinking their respective quotas of the notes.¹ This, of course, amounted to an indirect attempt to levy a tax. Again, in January,² 1777, the State legislatures were urged to make provision for drawing in the paper money already issued, and to raise by taxation during the year and send to the Continental treasury such sums of money as they could collect.

But, as the year wore on, and the bills of credit began to depreciate to an alarming extent, the necessity of taxation for the general government became more apparent. On November 15, the Articles of Confederation were passed by Congress, and sent to the States for ratification. The Articles provided³ that Congress should apportion among the States, on the basis of the value of the land and the improvements thereon, taxes that should be levied by the State governments. With the necessity of taxation thus recognized, Congress proceeded to make its first formal requisition on the States,⁴ in advance of the acceptance of the Articles of Confederation. The States were asked to furnish \$5,000,000 during the year 1778. This sum was not accurately apportioned; and it was stipulated that the amounts paid under the requisition should be considered as loans, until an assessment of the value of the land and buildings in each of the States should make possible an exact adjustment of their respective quotas. Congress also urged that the State issues of paper money should be withdrawn; and that, in the future, State expenses should be met by taxation. The wisdom of these recommendations is manifest, and they show conclusively that Congress had a true appreciation of the needs of the situation. But, unfortunately, as the power to enforce these measures was lacking, they proved to a great degree ineffectual.

From this time on the system of requisitions was continued until the end of the Confederation. On the whole, the lack

¹ Journal of Congress, July 29, 1775.

² January 14.

³ See p. 119.

⁴ November 22, 1777.

of political organization and vitality made it a signal failure, although the States did render the general government considerable assistance. But they were inclined to depend upon Congress, rather than upon their own efforts, when it came to raising funds for the conduct of the war; and this, too, while they retained in their own hands the exclusive right to levy taxes. Further than this, time was required to develop effective systems of taxation where none had previously existed; and the occupation of parts of the country by the British made the collection of taxes all the more difficult. As a result, the burden of State taxation was very unequally distributed; and this fact made even the small sums that were raised appear extremely burdensome to many of the people upon whom the taxes fell. In addition to all this, sparse population and slight development of trade made the cost of collection very high. All things considered, therefore, it does not seem surprising that the States failed to supply the large sums called for as the needs of Congress increased.

While the States were struggling with these difficulties, Congress was finding it impossible to secure a satisfactory apportionment of the requisitions. Complaints¹ were made continually that the amounts assigned to individual States were unjustly apportioned, and various attempts were made to secure an accurate assessment. A resolution adopted in October, 1779,² provided that all sums paid by the States should continue to be passed to their credit, and considered as loans to the government, until a satisfactory assessment could be made on the basis of the value of land and the improvements thereon. With each new requisition this resolution was re-enacted;³ and no adjustment of the burdens of taxation was secured until 1790, when the accounts of the States were finally settled by the acts of August 4 and 5, which provided for the funding of the national debt.⁴ Indeed, it

¹ Cf. Journal of Congress, September 10, 1782.

² October 6. Cf. also the resolution of November 23, 1777.

³ E. g. Journal of Congress, August 20, 1788.

⁴ See Statutes at Large, I. Also Hamilton's Report of 1790, State Papers, Finance, I. 15 et seq.

would have been practically impossible to apportion taxes satisfactorily on the basis of the value of the land and improvements in each State, as required by the Articles of Confederation. In 1783¹ Congress vainly attempted to amend the Articles so as to admit of an apportionment of taxes on the basis of population, in the census of which three-fifths of the slaves should be included. It was partly in view of the experience of the old Congress that the Federal Convention of 1787 rejected the old method, and provided for the apportionment of representatives and direct taxes on the basis of population.²

It seems likely, also, that the sums which Congress demanded were sometimes excessive. This fact not infrequently caused the States to despair of their ability ever to raise the full amount of the requisitions.³ At any rate, payments came in very slowly, and Congress resorted to all kinds of efforts to secure a prompter compliance with its recommendations. Addresses were sent to the States urging the necessity of immediate payment of the taxes;⁴ requisitions were made in stricter terms, and interest was to be charged on all deficiencies;⁵ special appeals were made to certain states;⁶ the Continental treasurer was directed to draw upon the States for sums remaining unpaid;⁷ and, finally, Congress attempted to throw some of its obligations upon the States.⁸ All these efforts, however, generally failed to accomplish their purposes. In 1780, when the issues of paper money were exhausted, the States were called upon⁹ to furnish supplies of corn, wheat, flour, etc.; but this system of specific supplies proved so wasteful that it was finally abandoned.¹⁰

¹ April 18.

² See Madison Papers, 864, 1038, 1039.

³ See Hamilton in Madison Papers, 283. Also Journal of Congress, April 5, 1784.

⁴ See resolutions of May 8, 1778, and September 13, 1779.

⁵ October 6, 1779; September 18, 1786.

⁶ January 15, 1781; May 19, 1780.

⁷ May 22, 1781.

⁸ November 20, December 10, 1781. In these cases Congress requested certain States to provide for equipping soldiers for the Continental army.

⁹ December, 1779; February 25, 1780; November 4, 1780.

¹⁰ See Sumner, *Financier*, I. chap. 11. Also Hamilton, *History of Republic*, II. 94.

The fatal weakness of the Articles of Confederation, which left in the hands of the States the sole power to collect taxes, was apparent long before the Articles finally went into effect in March, 1781. In February¹ of that year Congress sought to obtain from the States the power to levy a five per cent. duty on imports. While this resolution was pending, the attempt was made to combine with this proposal a request for power to supervise the commercial regulations of all the States. Rejecting this idea, however, Congress decided to ask simply for the right to establish effective national revenues; and it is worthy of notice that, under the Confederation, all other attempts to join commercial regulations to revenue measures met with a similar fate.² But this recommendation of Congress failed of acceptance, largely through the opposition of Rhode Island. This State based its refusal on the claim that the proposed tax would bear with undue weight upon the commercial States, and would give to Congress powers which might become dangerous.³

By this time⁴ Robert Morris had been called to administer the national finances. Basing his policy on the necessity of taxation, he urged from the outset the adoption of a system of import duties and other taxes.⁵ Early in 1783, with the condition of the finances becoming more and more precarious, Congress renewed⁶ its efforts to secure the authority to derive a revenue from customs duties. The States were asked to grant the government a five per cent. duty on imports with a few higher specific duties on certain articles of luxury. Congress conceded to the States the right to appoint the collectors of these revenues, which were estimated as likely to amount to \$915,000 annually, and were not to continue for a longer period than twenty-five years. At the same time the States

¹ February 3.

² See Hill, 99.

³ See *Journal of Congress*, December 12, 1782. On this whole subject see Hill, *Early Stages of Tariff Policy*, 99-102; Sumner, *Financier*, II. 64-68; Bolles, I. 292 et seq.; Curtis, I. 173-180.

⁴ February, 1781.

⁵ See Sparks, *Dip. Correspondence*, XII. 211; Sumner, *Financier*, II. 70.

⁶ April 18.

were requested to furnish the government with \$1,500,000 a year under the old system of requisitions. But this effort met with no better success than the earlier one had experienced, although such men as Morris, Hamilton, Madison, and Ellsworth devoted their energies to the attempt to persuade the States to make the necessary grant of power.¹

Three years later the project was renewed,² and the States were asked to consent to the establishment of the general system of revenue recommended in 1783. Again a negative answer was received; and, after this, the attempt was abandoned. Not until 1789 was the national government able to assess and collect the taxes necessary to its support.

The history of the requisitions made by Congress is both interesting and instructive. The sources of information are in some particulars conflicting, owing to the confusion that existed in the accounts of the old government; but the most important facts can be ascertained with considerable accuracy. First among the sources come the Reports of 1785 and 1790. These do not include all the money expended in Europe,³ but they do give an account of the financial transactions carried on in America. Next, there is the report made by Hamilton in May, 1790, on the "Money received from or paid to the States."⁴ In this the old accounts are cleared up as far as possible. But, in the final settlement made by Hamilton, the States are credited with certain sums that do not appear on the earlier accounts; and, as a result, the statements of this report do not agree in some respects with the Report of 1785 and the Report of 1790. Finally, we have various reports made by committees appointed by Congress to consider financial questions. These frequently conflict with each other, as well as with the other documents mentioned above; and

¹ See Journal of Congress, April 24, for address sent to the people of the United States. See Madison Papers, 187-467, for debates in Congress. See Sumner, Hill, Curtis, and Bolles, as above.

² April 18, 1786.

³ E. g. The Report of 1790 makes no mention of the Dutch loan of 1787, which was used to pay interest due on previous loans in Europe.

⁴ See State Papers, Finance, I. 52-62; Elliot, 67-83.

present some discrepancies which it is impossible to explain. Yet, they have a certain value for our purpose.

The first four requisitions were payable in paper money, and were as follows:¹

DATE OF REQUISITION.	Amount in paper money.	Specie value. ²
November 22, 1777.....	\$ 5,000,000	\$2,159,981
January 2, 1779.....	15,000,000 ³	} 2,042,500
May 21, 1779	45,000,000	
October 6, 1779 ⁴	30,000,000.	852,491
Total	\$95,000,000	\$5,054,972

The payments on these requisitions amounted to \$54,667,000 in currency, of which the specie value was \$1,856,000, according to the scale of depreciation recognized by Congress at the time of payment.⁵

The last of these requisitions was made on October 6, 1779. By the resolutions of February 27 and March 18, 1780; this requisition was amended; and was made to serve as a means of withdrawing the bills of credit from circulation. In the final resolution of March 18, the States were asked to pay in \$15,000,000 of the bills monthly until April, 1781; and all paper paid in after March 1, 1780, was to be destroyed. Of the \$180,000,000 of currency thus required, \$119,400,000 was paid in.⁶ For this the States were credited with payments of \$2,989,000 in specie, this amount representing one-fortieth of the face value of the bills of credit.⁷

¹ On all requisitions see Journals of Congress of the dates given; also Hildreth, III. article on "Requisitions" in the index.

² The specie value is taken from a report by Morris, quoted by Sumner, *Financier*, I. 279; also in Sparks, *Diplomatic Correspondence*, XI. 447.

³ Congress also called for \$6,000,000 a year for eighteen years, but no notice seems to have been taken of this amount.

⁴ This requisition was amended by resolution of March 18, 1780. which is next discussed.

⁵ See *State Papers, Finance*, I. 55, 59-62. Also Elliot, 70, 77-83. Of course, this scale of depreciation resulted in an over-valuation.

⁶ See *State Papers, Finance*, I. 58, 59; Elliot, 73-76.

⁷ See *State Papers, Finance*, I. 54, 58, 59; Elliot, 69, 73-76.

The next requisitions were for specific supplies,¹ the value of which can not be determined except in the case of the requisition of November, 1780. Here the States were requested to send goods of the value of \$4,350,000. In Hamilton's report the States are credited with supplies to the amount of \$881,000;² but it is uncertain whether we should be justified in taking this sum for the payments made under the specific requisitions. It would seem probable that, in a statement of the amounts paid to the government by the States, there must be some credits given for the payments of specific supplies. It is certain that nothing else in Hamilton's tables can represent such supplies; and, therefore, it is possible that the amount above mentioned represents the payments on the specific requisitions. Further than this, it is impossible to ascertain to what extent the States complied with these demands of Congress. It is certain, however, that the system proved wasteful and expensive; and that it failed to furnish the army with supplies at the time and place where they were needed.³

As soon as the specie basis was restored Congress made its requisition payable in specie, or, as an equivalent, the bills of credit of the new emission. These early specie requisitions were as follows:

DATE OF REQUISITION.	Amount.
August 26, 1780.....	\$3,000,000
November 4, 1780.....	1,642,988
March 16, 1781.....	6,000,000
	\$10,642,988

Little, if anything, seems to have been received in payment of these requisitions.⁴ In Morris's accounts, which begin in

¹ Requisitions were ordered December 11, December 14, 1779; February 25, November 4, 1780.

² See State Papers, Finance, I. 55; Elliot, 70.

³ See Sumner, I. chap. 11.

⁴ For the state of the finances during 1780-1781 see Bolles, I. 101-104; also an address sent out by Congress, in Journal for January 15, 1781.

February, 1781, there is no record of any receipts from taxes until June, 1782; and the amounts then paid are credited to requisitions made after October 1, 1871. We have seen that in the resolution of March 18, 1780, Congress provided that the four-tenths of the bills of the new emission that were to be at the disposal of the United States, should be credited to the States on their quotas of the requisitions. The share of the new bills which fell to the United States amounted to \$1,592,222;¹ and must, therefore, be credited to these first specie requisitions.

The history of the requisitions made after this date can be determined with considerable accuracy.² October 30, 1781, Congress called for \$8,000,000. In September³ of the following year \$1,200,000 was called for, but this sum was afterwards made payable in indents, or the certificates issued by the loan officers for interest on the domestic debt. Under this requisition, however, no payments seem to have been made. On October 16, 1782, \$2,000,000 in specie was called for. Hamilton states that \$1,329,000 was paid on this requisition and on that of October, 1781,⁴ up to the first of the year 1784. Morris's accounts, however, show that the receipts from taxes in 1782 and 1783 amounted to \$1,466,066.⁵ A report of a committee of Congress⁶ places the payment for the same period at \$1,486,511. There is no apparent explanation for these conflicting statements; and, undoubtedly, the original accounts of Morris should be given the greater weight.

In April, 1784,⁷ Congress, recognizing that these demands had been excessive, called for a payment of only \$2,003,000 in specie and \$667,000 in indents; providing, at the same time, that these sums should be credited on the existing requisitions.

¹ See State Papers, Finance, I. 58; Elliot, 73.

² We have Hamilton's tables of the payments on the requisitions from October, 1781, to 1788, and the Reports of 1785 and 1790.

³ September 10.

⁴ See State Papers, Finance, I. 56.

⁵ See Report of 1790, in Banker's Magazine, 582, 583.

⁶ See Journals, April 5, 1784.

⁷ April 27, 28.

The following year¹ the balance due on the same requisitions was required, of which sum \$1,000,000 was made payable in specie, and \$2,000,000 in indents. In 1786² a new requisition was made for \$2,170,430 in specie and \$1,606,632 in indents. The next year,³ \$1,700,407 payable in indents was asked for; and, in 1788,⁴ a final requisition was ordered, which called for \$1,686,541 in indents. According to Hamilton's report these requisitions made after 1781, stand as follows:⁵

	Specie.	Indents.	Total.
Amount levied from 1781 to 1789	\$6,630,000	\$8,733,000	\$15,363,000
Payments made from 1781 to 1784.....	1,329,000	.....	1,329,000
Payments made from 1784 to 1789.....	2,200,000	2,371,000	4,571,000
Total payments.....	\$3,529,194	\$2,371,154	\$5,900,348
Balance unpaid in 1789	\$3,101,731	\$6,361,929	

This statement made by Hamilton does not appear to agree at all closely with the Report of 1790. This last document states the receipts from taxes from February 20, 1781, to September 12, 1789, as follows:

February 20, 1781, to December 31, 1781.....	.....
1782	\$ 646,036 46
1783.....	820,029 83
1784.....	613,772 89
1785.....	376,620 59
1786, specie.....	301,142 39
indents	38,895 74
supplies.....	27,730 38
1787, specie	276,641 44
indents	370,257 48
1788, specie.....	261,678 29
indents.....	1,041,756 57
1789, specie.....	87,739 37
indents.....	90,721 41
Total payments in specie.....	\$3,383,661
Total payments in indents.....	1,541,631
Payments in form of supplies	27,730
Total receipts from taxes ⁶	\$4,953,022 84

¹ Sept. 27.

² August 2, 1786.

³ October 11, 1787.

⁴ August 2, 1788.

⁵ State Papers, Finance, I. 56, 57; Elliot, 71, 72.

⁶ See Banker's Magazine, 1890, 581-591.

But it is possible to account for these discrepancies. The greatest difference between the two statements is in the matter of the payments of indents. Now the States seem to have continued to turn indents into the national treasury after September, 1789. In Hamilton's Report on the Public Credit, in January, 1790,¹ the amount of indents paid in up to December 31, 1789, is placed at \$2,244,231. By May, when the report was presented concerning the money paid by the States, this sum had been increased to \$2,371,154. This seems to explain the accounts of the payment of indents. In the case of the specie payments there is only a difference of \$117,000 between Hamilton's statement and the accounts of the old government. This may be explained on similar grounds. Indeed, from what we know of the delays and backwardness of the State officials, and even of the national receivers, in furnishing statements of their accounts, such an explanation seems more than plausible.² It is probable, however, that these credits given to the States by Hamilton arose from the settlement of old accounts; and do not represent actual payments in specie after September, 1789.

We are able then to construct the following table, which shows the total receipts from taxes after February, 1781.

	Specie.	Indents.	Supplies.	Totals.
1781 to December 31, 1783.....	\$1,466,066 ³	.....	.....	\$1,466,066
January, 1784, to September 12, 1789	1,917,595 ³	\$1,541,631 ³	\$27,730 ³	3,486,956
Credits given the States after September 12, 1789	117,803	829,523	.....	947,326
Totals	\$3,501,464 ⁴	\$2,371,154	\$27,730	\$5,900,348

¹ State Papers, Finance, I. 28; Elliot, 55.

² For an illustration see the Journal of Congress for September 30, 1788. There it is stated that the receipts of indents up to April 1, 1788, were \$1,881,000. But of this sum only \$1,100,000 had been received into the treasury, the balance still remaining in the hands of the loan office receivers.

³ See p. 161, accounts of old government.

⁴ Add to this \$27,730 for supplies, and the amount equals Hamilton's statement of \$3,529,194.

The entire list of requisitions will, therefore, stand as follows:

REQUISITIONS.	Amount in currency.	Amount in specie.	Payments in currency.	Payments in specie.	Balances unpaid.
First requisitions. See p. 158..	\$95,000,000	\$5,054,972	\$54,667,000	\$1,856,000	\$3,198,000
Specific supplies. See p. 159....	.....	.....	.....	881,000	.....
Requisitions of March 18, 1780..	180,000,000	.....	119,400,000	2,989,000	.....
Early specie requisitions. See p. 159.....	.....	10,642,988	.....	1,592,222	9,050,000
Specie requisitions after Octo- ber, 1781. See p. 160..	.....	6,630,926	.....	3,529,194	3,101,000
Requisitions payable in indents See p. 160.....	.....	8,733,083	.....	2,371,154	6,361,000
		\$31,061,969		\$13,218,570	

The figures already presented show so plainly the weakness of the system of requisitions that no further comment is necessary. In a following chapter it will be necessary to recur to this subject, and to show what position taxes occupied in the national finances of this period. To that end it will be convenient, at this point, to determine the amount which the government received from taxes up to the end of 1783, and the sums received after that date. For this purpose the following tables have been prepared:

From the first requisitions, specie value.....	\$1,856,000
From specific requisitions.....	881,000
From specie requisitions before October, 1781.....	1,592,000
From specie requisitions October, 1781, to January, 1784....	1,406,000
Total ¹ receipts to January 1, 1784.....	\$5,795,000

¹ Since the requisition of March 18, 1780, brought the government no revenue, it has been excluded from this table.

	Specie.	Indents.	Total.
From requisitions from January, 1784, to September, 1789	\$1,945,325 1	\$1,541,631	\$3,486,956
After September 12, 1789	117,803	829,523	947,326
Total	\$2,063,128	\$2,371,154	\$4,434,282

The experience of the Confederation with the system of requisitions sufficed to convince the Federal Convention that the new government should possess the right to raise directly the revenues necessary to its support. With but little opposition Congress was given the power "to lay and collect taxes, duties, imposts, and excises to pay the debts and provide for the common defense and general welfare of the United States." ²

¹ The sum of \$27,730 received in supplies is included in this column of specie payments. See p. 162.

² Gilpin, Madison Papers, 1343; Elliot, Journal of Federal Convention, 245. See also Bancroft, History of the United States, VI. 301; Curtis, History of the Constitution of the United States, II. 289-290, 318 et seq. The necessity of this action is forcibly shown in Hamilton's discussion of the subject in The Federalist, XXX.

CHAPTER IV.

REVENUES OF THE GOVERNMENT (Concluded).

(D) *Miscellaneous Revenues.* (E) *Total Revenues.*

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(D) *Miscellaneous Revenues.*

Besides the revenues already described, Congress derived no inconsiderable income from other sources of a miscellaneous character. The amounts so received after 1781 can be ascertained from the Reports of 1785 and 1790. Before this date it is impossible to estimate with accuracy the receipts from such sources.

Before the formal treaty of alliance was concluded with France, and before foreign loans were secured, the United States received secret subsidies from the French govern-

ment, which was not as yet ready to show open hostility to Great Britain. Under the guise of commercial transactions, military supplies were shipped to the United States through Beaumarchais, a secret agent chosen for this purpose. In this manner 2,000,000 livres was advanced by France and 1,000,000 by Spain,¹ as gifts from those countries. Also Beaumarchais, on his own account, furnished other supplies for which he was to receive payment by shipments of American produce. According to the account of Beaumarchais,² the total value of the supplies furnished was 6,274,000 livres of which amount the sums given by the French and Spanish governments must constitute a part. The munitions of war obtained in this way were of the greatest assistance to the American cause. Later on France made additional grants of 8,000,000 livres through the agency of Franklin.³ These gifts, together with the loans that were secured in that country, make the total sums of money furnished by France amount to \$8,167,000. The entire account of these foreign subsidies stands as follows:⁴

Gifts from France.....	\$1,815,000
Gifts from Spain.....	181,500
Total gifts.....	\$1,996,500
Supplies through Beaumarchais for which payment was made.....	592,000
	\$2,588,500

In 1776⁵ Congress voted to establish a lottery. This was an expedient which was common enough in the colonies,⁶ and which was still employed by European countries.⁷ From this scheme something was realized; but, although

¹ See Bayley, 303, 304.

² See Bayley, 303.

³ See Bayley, 304.

⁴ See Bayley, 303-304. On this entire subject see also Bolles, I. 231-237; Sumner, I. chap. VIII; Pitkin, I. chap. X, also II. 514-518; Bayley, 299-304; Doniol; Hale.

⁵ November 1, 18, 19.

⁶ See Ely, *Taxation*, 41, 113.

⁷ See Bastable, *Public Finance*, 215, 216; Roscher, *Finanzwissenschaft*, sec. 30

we have no means of determining the exact receipts, we may be sure that they could not have been considerable.'

On account of the character of the government under the Confederation, no considerable revenues were secured from such sources as fees, fines, forfeitures, etc. In the Journal of Congress for May 10, 1780, there is a resolution concerning certain fees. The ordinance of October 18, 1782, regulating the post office establishment, provided for certain fines and forfeitures. But such provisions could have had no financial significance. During the war large amounts of property belonging to the loyalists were confiscated; but this was done under the laws of the individual States, and need not be discussed in a sketch of the national finances.

In the case of the Continental post office there existed revenues that may properly be termed fees, and some attention should be given to the financial aspects of this branch of the public service. Previous to 1774 the colonial post office had, under the administration of Franklin, become a source of revenue to the Crown.² The Continental Congress in 1775³ established a general post, and appointed Franklin postmaster general. The financial policy of Congress in regard to the post office was not clearly shown at this time. Franklin was to have charge of the revenues and disbursements of the department, and was instructed to turn any profits or gains from the post over to the Continental treasurers.

Article IX. of the Articles of Confederation gave to Congress the exclusive power of "establishing and regulating post offices from one State to another, throughout all the United States, and exacting such postage on the papers passing through the same as may be requisite to defray the ex-

¹ See Sumner, I. 101-102; Bolles, I. 48, 49, 105, 106.

² On the subject of the post office see McMaster, History of the People of the United States, I. 39-43; Duane's edition of the Laws of the United States, I. 649, especially for the Revolutionary period; article "Post," in the American Cyclopædia, XIII.

³ July 26.

penses of the said office." This, it would seem,¹ was intended to prevent Congress from deriving a revenue from this source independently of the requisitions on the States.

The disturbed condition of the country during the war must have rendered the work of the department extremely difficult. Up to 1783 the post seems to have been operated at a loss, in spite of various attempts of Congress to regulate postal charges and the expenses of the establishment. In 1782² an act was passed remodeling the department, and showing clearly what the policy of the government was to be. Any profits accruing from the post office in the future were to be turned over to the treasurer of the United States, "until the sums of money heretofore advanced, or which shall be hereafter advanced by the United States, for the support of the general post office, ... shall be repaid." After these existing deficiencies should be made good, all future surpluses were to be "appropriated and applied to the establishment of new post offices and the support of packets, to render the post office department as extensively useful as may be." Any deficiencies were to be made good by the United States.

In 1783 the accounts of the government show a surplus of \$1,653, paid over by the post office to the general treasury.³ After that date a surplus appears each year, with the single exception of 1785. The total amount thus received up to September, 1789, was \$18,000. It would seem, therefore, that the deficiencies previous to 1782 must have equalled, or even exceeded, that sum. Evidently, Congress did not consider it a violation of the Articles of Confederation to derive a profit from the post office, provided that any such surpluses should be used for rendering the department "as extensively useful as may be." Thus, while the Articles renounced the attempt to derive a rev-

¹ This is the view taken by Bancroft. See History of the United States, V. 202.

² October 18.

³ Report of 1790. Bankers' Magazine, 1880, 581-591.

enue from this source, Congress designed to extend the usefulness of the postal establishment.

From the accounts of the government after February, 1781, we can derive exact information as to the sums received from various other sources of the most miscellaneous kind.¹ Prizes taken at sea, booty from the surrender of the British at Yorktown, sales of public property, especially at the close of the military operations, commercial transactions undertaken by the government, interest on bills of exchange, balances of accounts due from individuals, and some other minor items brought in no inconsiderable amounts of money. The total receipts of this character were as follows:

From Feb. 20, 1781, to Jan. 1, 1784.....	\$856,302
From Jan. 1, 1784, to Sept. 12, 1789.....	338,568
	\$1,194,870

A final source of revenue must be mentioned. When the States ceded to Congress their claims to the northwestern territory, the general government came into possession of a magnificent public domain of more than a quarter of a million of square miles.² The financial significance of this domain was perceived at an early period. It is mentioned as a "fund to raise money on," and Congress promised the soldiers land bounties.³ Gradually the idea developed that the public debt might be paid out of the receipts from sales of the lands, and Congress determined to devote the domain to this purpose.⁴ Financial considerations, prompted by the urgent needs of the treasury, seem to have shaped the policy of Congress in throwing the domain open for settlement. Jefferson indulged in the most reckless and

¹ See Report of 1790; also Sumner II. 126-128.

² On this subject of land cessions, see Donaldson, *The Public Domain*; Adams, *Maryland's Influence upon Land Cessions*; Sato, *The Land Question in the United States*; Barrett, *Evolution of the Ordinance of 1787*.

³ Barrett, *Ordinance of 1787*, 5. .

⁴ Donaldson, *Public Domain*, 196-7; Barrett, *Ordinance of 1787*, 4-5.

unfounded estimates of the revenue to be derived from this source.¹ The general expectation of effecting in this manner a large reduction of the debt was not realized.² Moreover, since the obligations of the government were received in payment for the lands, the treasury seems to have received no specie income from these sales. In the Journal of Congress for September 30, 1788, there is an account of the sale of lands to the amount of \$117,104. In Hamilton's Report on the Public Credit, in January, 1790,³ the sum of \$960,915, received from sales of lands and other property up to March 3, 1789, is deducted from the principal of the domestic debt. But we have no means of determining how much of this amount represents the sales of lands. Gallatin⁴ later on gives the receipts from the public lands up to January, 1790, as \$1,100,000. This would make it seem that the amount stated by Hamilton must be in greater part, made up of the payments for the lands.

Two other features of the policy pursued by Congress in regard to the domain deserve consideration. The ordinance of May 20, 1785, made provision for "the mode of disposing of lands in the western territory." By this act one section of the land of each township formed in the territory was reserved "for the maintenance of public schools within the said township." Besides this magnificent endowment for educational purposes, Congress also provided for the retention of a portion of the domain in the hands of the general government. In this particular future Congresses might have learned much from the despised Congress of the Confederation. The ordinance of 1785 reserved a certain amount of land in each township "for future sale," also "one-third part of all gold, silver, lead and copper mined, to be sold, or otherwise disposed of as Congress shall hereafter direct." It is a matter for

¹ Works, II. 325.

² See Ross, *Sinking Funds*, 26-28; Bolles, I. 356, 357.

³ State Papers, Finance, I. 27; Elliot, 53.

⁴ Writings, III. 124.

regret that an equally cautious policy was not followed in the subsequent disposition of the public domain.

From all these sources, it would seem, the national treasury must have derived, between 1775 and the first of 1784, at least the following income:¹

Gifts from France and Spain.....	\$1,996,500
Prizes, booty, sales, commercial transactions, etc....	856,302
	\$2,852,802

Between 1784 and 1789, receipts of a miscellaneous character amounted to \$338,568, while the sums derived from the public lands enabled the government to cancel at least \$960,915 of the public debt. Thus for the whole period the entire miscellaneous revenues were as follows:

From 1775 to Jan., 1784.....	\$2,852,802
From 1784 to Sept., 1789.....	338,568
Public debt cancelled through receipts from lands	960,915
Total.....	\$4,152,285 ²

(E) *Total Revenues.*

On the basis of the results already obtained, the total income of the government for these fourteen years may be estimated approximately as follows:

(A) *Revenues from 1775 to end of 1783.*

Receipts from paper money, see p. 136.....	\$37,800,000
Receipts from domestic loans, see p. 143.	11,585,506
Receipts from foreign loans, see p. 147.....	7,830,517
Receipts from taxes, see p. 163.....	5,795,000
Miscellaneous receipts, see p. 171.....	2,852,802
Total income.....	\$65,863,825
Obligations outstanding, see p. 144	16,708,000

¹ From this there have been omitted the supplies received from Beaumarchais, for which payment was made. These amounted to \$522,000. See p. 166.

² This amount includes the sum of \$18,000 received from the post-office after 1783.

If we add to this table the State debts of \$18,271,000 we are able to account for the entire cost of the war as estimated on page 180.

(B) Revenues from 1784 to Hamilton's settlement of accounts.

Receipts from taxes in specie, see p. 164.....	\$2,063,128
Receipts from foreign loans, see p. 148.....	2,296,000
Miscellaneous receipts, see p. 169.....	338,568
Total receipts in specie.....	\$4,697,696
Receipts from taxes in indents, p. 164.....	2,371,154
Public debt cancelled through receipts from lands, p. 170.....	960,915
Total receipts.....	\$8,029,765

CHAPTER V.

EXPENDITURES OF THE GOVERNMENT.

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American State Papers, Finance, I. and V.; Bolles, *Financial History of the United States*, I. and II.; Circourt, *Histoire de l'Action Commune de la France et de l'Amérique*; *Diplomatic Correspondence of the American Revolution*, VI.; Elliot, *The Funding System*; Gallatin, *Writings*, III.; Hildreth, *History of the United States*, III.; Jefferson, *Works*, IX.; *Journals of Congress*; *Report of 1790*; Sumner, *Financier and the Finances of the American Revolution*.

It is extremely difficult to present any satisfactory statement of the expenditures of the United States during the period which we are discussing. We have none of the accounts of the government previous to 1781; and, after that date, the money expended in Europe is not included in the statement of treasury transactions. Moreover, the data which we are obliged to use are in some particulars conflicting; while the difficulty of ascertaining the specie value of the Continental paper money still further complicates our task.

From the point of view of expenditure, these fourteen years divide naturally into two periods. From 1775 to the end of 1783 the expenses of the government were on a war basis. After that time the war expenditures ceased, but Congress was obliged to carry the burden of a large domestic and foreign debt.

Section I.—Expenditures from 1775 to end of 1783.

Estimates of the cost of the Revolutionary War vary widely, both in methods and results. In 1786 Jefferson made the following computation:¹

Specie value of the Continental currency.....	\$36,000,000
Specie value of the State currency....	36,000,000
Federal debt.....	43,000,000
State debts.....	25,000,000
Total.....	\$140,000,000

Mr. Hildreth has estimated the cost very differently:²

Bills of credit.....	\$70,000,000
Raised by States through taxes and repudiated State paper.....	30,000,000
Federal debt.....	44,000,000
State debts.....	26,000,000
Total.....	\$170,000,000

More valuable than either of these estimates is the following statement³ prepared by Hamilton at the request of Congress in 1790:

(A) Transactions at the Treasury.

	Bills of credit.	New emissions.	Total transactions, specie value.
1775 and 1776.....	\$30,064,666	.....	\$30,064,666
1777.....	26,426,333	.....	24,986,646
1778.....	66,965,269	.....	24,289,438
1779.....	149,703,856	.....	10,794,620
1780 ⁴	82,908,320	\$891,236	3,000,000
1781.....	11,408,095	1,179,249	1,942,465
1782.....	.....	.....	3,632,745
1783.....	.....	.....	3,226,583
Total ⁵	\$357,476,541	\$2,070,485	\$91,937,168

¹ Works, IX. 259, 260.

² History of United States, III. 445-448.

³ See Elliot, 10, 11; also Sumner, II. 132, 133.

⁴ In this year the finances were restored to a specie basis.

⁵ We have omitted Hamilton's figures for 1784, which fall outside of this period.

(B) Total Expenditures.

Expenditures at the treasury.....	\$91,937,168
Outstanding certificates of indebtedness.....	16,708,009
Expended in Europe.....	5,000,000
State debts.....	21,000,000
Total cost of war.....	\$134,645,177

In this statement Hamilton has undoubtedly followed the best method of computation. Jefferson left out of his estimate the receipts from taxes, while he overvalued the State issues of paper and the State debts. Hildreth overestimated the bills of credit. Hamilton's figures of the transactions at the treasury are too large, for he followed the official scale of depreciation adopted by Congress, which did not show the full amount of the depreciation.¹ If this one item could be corrected, however, his estimate would be very close to the truth.

The accounts of the expenditures at the treasury from 1781 to 1784 are given in the Report of 1790.² For these years also there are the estimates of the necessary expenses of government which were presented to Congress; also the appropriations made for 1782 and 1783.³ The adjoining table presents these statements. In it are included Hamilton's figures⁴ for the same years, since the Report of 1790 includes only a portion of the year 1781. It is interesting to notice how far the appropriations of Congress exceeded the actual expenditures which the government was able to make.

	Estimates and appro- priations. ⁵	Expendi- tures in Report of 1790.	Hamilton's statement.
1781.....	\$16,213,000	\$1,054,215	\$1,942,465
1782.....	\$8,000,000	\$3,632,745	\$3,632,745
1783.....	\$6,000,000	\$3,226,583 ⁶	\$3,226,583

¹ See pp. 132, 133.

² Bankers' Magazine, 1890, 581-584.

³ See Journals of Congress for April 18, 1781; Oct. 30, 1781; Oct. 16, 1782.

⁴ See Elliot, Funding System, 10.

⁵ Exclusive of arrearages and interest on debt.

⁶ Exclusive of anticipations and repayments therefor.

The Report of 1790 does not include much of the money expended in Europe for foreign representatives and interest on the foreign debt. The items of expenditure given in the Report between February 20, 1781, and December 31, 1783, are as follows:¹

Expenditures.	Feb. 20 to Dec. 31, 1781.	1782.	1783.
For the President's household.....	\$4,197	11,470	\$9,277
Expenses of Congress.....	4,131	14,080	16,158
Treasury department.....	3,091	40,387	48,297
Foreign office and officers.....	938	45,614	35,758
War department.....	2,953	12,988	18,309
Total civil list.....	\$15,301	\$134,541	127,841
Army.....	\$484,352	\$2,153,364	\$2,373,025
Marine.....	87,608	132,936	124,755
Pensions, annuities and grants.....	3,969	4,469	8,596
Indian affairs.....	121	562	1,243
Contingencies and miscellaneous.....	41,039	14,130	2,979
Payments of old accounts.....	115,196	188,965	51,191
Repayments of loans, etc.....		1,013,775	536,950
Repayment of anticipations of 1782.....			380,360
Total expenditures.....	\$747,590	\$3,632,745	\$3,606,943
Balance.....	\$306,624		
Payments in excess of receipts.....		380,360	230,002

Following the method employed by Hamilton, and using the best materials obtainable, the following estimate has been made of the cost of the Revolution. In this the main effort has been to avoid the error made by Hamilton in overestimating the specie value of the expenditures in currency at the treasury. For this purpose separate tables are devoted to the years when the treasury transactions were carried on mainly in currency, and to those which followed the resumption of a specie basis early in 1780.

¹ We have excluded the column of cents from all except the totals.

In the following table are given Hamilton's estimate of the specie value of the total treasury transactions from 1775 to 1779, and his statement of the advances in bills of credit up to the year 1781.¹ Beside these figures are placed the amounts of paper money which, as ascertained by the result of these investigations, were received by the government from issues of bills of credit,² from domestic loans,³ and from taxes.⁴ It will be seen that the total receipts from these sources correspond very closely with Hamilton's statement of the amount of expenditures in currency. We may be certain that, from 1775 to the end of 1779, these advances of paper money represent substantially all of the transactions at the treasury, because the receipts of specie during that period were extremely small.⁵

HAMILTON'S ESTIMATE.			AUTHOR'S ESTIMATE OF THE RECEIPTS IN BILLS OF CREDIT.		
	Total transactions in specie value.	Expenditures in bills of credit.	Emissions of bills of credit.	Taxes.	Domestic loans.
1775 & 1776	\$20,064,666	\$20,064,666	\$25,000,000 ⁶	.....	.....
1777....	\$24,986,646	\$26,426,333	\$13,000,000	First requisition Nov. 22.	To Sept., 1777, \$3,787,000
1778.....	\$24,289,438	\$66,965,269	\$63,500,000	Receipts only \$3,000,000 to Sept: 1779. See Jour., Sept. 13.	Sept. 1777 to March, 1778, \$3,459,000
1779	\$10,794,620	\$149,703,856	\$140,000,000		
1780.....	.....	\$82,908,320		\$51,667,000	After March, 1778, \$59,830,000
1781....	.....	\$11,408,095			
Total ..	\$80,135,370	\$337,476,541	\$241,500,100	\$54,667,000	\$67,076,000
			Total, \$363,242,000		

¹ See Elliot, 10, 11.

² See p. 130.

³ See p. 143.

⁴ See p. 158.

⁵ See p. 127; also Elliot, 10.

⁶ The \$5,000,000 authorized in December, 1776, was expended in 1777.

Now, since this account of the receipts of the government from the issues of paper, from taxes, and from loans agrees substantially with Hamilton's statement of the expenditures in currency, it will be possible to correct the error in Hamilton's estimate of the specie value of these advances at the treasury. We have already ascertained the value of these receipts, as follows:

Receipts from paper money ¹	\$37,800,000
Receipts from taxes in bills of credit ² ..	1,856,000
Receipts from domestic loan in bills of credit of the old emission ³	11,472,000

Specie value of total receipts in
bills of old emission, ⁴..... \$51,128,000

This estimate of the specie value of the bills of credit received at the treasury represents nearly all of the expenditures of the government up to the end of 1779. But it also includes the sum of \$94,316,000 ⁵ of bills of the old emission expended in 1780 and 1781, after the finances were restored to a specie basis. The specie value of these bills must be deducted from the estimate of the total expenses in paper money, in order that we may ascertain the expenditures in specie from 1775 to 1779, inclusive. The depreciation ⁶ of the currency had gone so far by January, 1780, that one dollar of paper was worth less than three cents. By the beginning of 1781 the rate of depreciation was one hundred to one, and perhaps even more. ⁷ We shall, there-

¹ See pp. 136.

² See p. 158.

³ See pp. 143.

⁴ In estimating the specie value of the paper money care was taken not to overestimate it. Whatever error exists in the estimate is undoubtedly one of undervaluation. In the case of the receipts from taxes and from domestic loans it has been shown that the specie value has been overestimated through following the scale of depreciation established by Congress. It follows, therefore, that in the above table whatever error of undervaluation exists in the first item is partially, at least, counterbalanced by errors of overvaluation in the second and third items. The errors in the table, then, are not cumulative; and the total estimate must approximate the truth very closely.

⁵ See table above presented, p. 177.

⁶ See p. 133.

⁷ See State Papers, Finance, V, 766-774.

fore, not over-value the sum spent in those years if we assign to the paper expended in 1780 a depreciation of fifty to one, and to that advanced in 1781 a rate of one hundred to one. The result of such an estimate is as follows:

	Amount.	Rate.	Specie value.
Currency expended in 1780.....	\$83,908,000	1 to 50	\$1,658,000
Currency expended in 1781.....	11,408,000	1 to 100	114,000
Total.....	\$94,316,000		\$1,772,000

Deducting, therefore, \$1,772,000 from the previous estimate, we get \$49,356,000 as the specie value of the paper money expended at the treasury previous to 1780.

During these years the only sources from which the government could have derived any revenues other than those included in this estimate, were the foreign loans and subsidies. But the sums obtained from loans prior to 1780 were less than a million dollars;¹ and much of this may have been expended in France without passing through the treasury. The amount of the gifts received from France and Spain was \$1,996,500.² A large part of this was received later than 1779, while a considerable portion was spent in France in purchasing military supplies. Therefore, although it is impossible to determine what sums of money came into the treasury from these sources, we may be certain that the amount was not large; and that the transactions in currency represent practically all of the expenditures at the treasury during these years.

The money expended at the treasury from 1781 to 1783 is stated by Hamilton as follows:³

1780.....	\$3,000,000
1781.....	1,942,465
1782.....	3,632,745
1783.....	3,226,583
Total.....	\$11,801,793

¹ See p. 147.

² See p. 166.

³ See Elliot, 10.

The amount stated for 1780 is evidently a mere estimate, and gives evidence of the confusion that existed in the accounts of the treasury. The figures for 1782 and 1783 agree with those found in the Report of 1790.¹

The final estimate of the cost of the war is given in the adjoining table.

Expenditures at the treasury in specie value:

1775—1779.....	\$49,356,000
1780—1783.....	11,801,000

Total.....	\$61,157,000
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Expenditures in France ²	\$5,000,000
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Outstanding certificates of indebted-	
ness ²	16,708,000

State debts ³	18,271,000
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Total expenditures	\$101,136,000
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In this statement the Continental bills of credit have been estimated at \$37,800,000. If, however, we value the paper money at \$41,000,000,⁴ we must increase slightly the estimate of the cost of the war. Thus the total expenditures may be placed at from \$101,136,000 to \$104,336,000.

With these figures it is interesting to compare the amounts expended by France and England in the prosecution of the war. In 1782 Vergennes told Lafayette that France had already expended 250,000,000 livres.⁵ The comptroller of the French treasury placed the yearly cost of the war to France at 60,000,000 livres.⁶ Prof. Sumner considers \$60,000,000 a fair estimate of the amount which France expended directly for the American cause.⁷ Sir John Sinclair states that the English debt increased dur-

¹ See p. 175.

² As given by Hamilton. See pp. 144, 147; Elliot, 10.

³ Hamilton gives these as \$21,000,000, following the amount given in the funding act. But when finally adjusted these debts amounted to only \$18,271,000. See p. 149; also Gallatin, Writings, III. Sketch of Finances, table XV; also Bolles, II. 37-39.

⁴ See p. 136.

⁵ Dip. Correspondence, VI. 470.

⁶ Circourt, III. 159.

⁷ Financier and Finances, II. 133.

ing the American war more than £ 121,000,000.¹ From this the government received £ 97,815,324 after deducting discounts and bonuses. Wilson estimates the cost of the war at £119,000,000,² and places the discounts and bonuses at thirty per cent. It seems clear that the sum spent by England largely exceeded the combined expenditures of France and the United States.

Section II.—Expenditures from 1784 to 1789.

A heavy burden of indebtedness, entailing large annual charges for interest, hung over the Confederation at the opening of 1784. As nearly as can be computed this debt stood as follows:

(A.) Foreign Debt.

Principal of French and Dutch loans ³	\$7,830,517
Balance for supplies ⁴	24,332
Arrears of interest to 1784 ⁵	67,037
Total	\$7,921,886
Annual interest charges ⁶	\$375,000
Amount overdrawn ⁶	\$350,000

(B.) Domestic Debt.⁷

Loan office debt ⁸	\$11,585,000
Outstanding certificates of indebtedness, unliquidated ⁹	16,708,000
Total principal	\$28,293,000
Arrears of interest to 1784 ¹⁰	\$3,109,000
Annual interest charges ¹¹	\$1,500,000
Payments over receipts during 1783 ¹²	\$230,200

¹ History of the Public Revenue, third edition, I. 471.

² The National Budget, 36.

³ See p. 147; also Bayley, 468.

⁴ See Bayley, 325.

⁵ See Journal of Congress, April 5, 1784.

⁶ See p. 147.

⁷ Compare this statement with Journal of Congress, April 5, 1784.

⁸ See p. 143.

⁹ See p. 144.

¹⁰ As nearly as can be computed from Journal, April 5, 1784.

¹¹ The estimates of interest vary from year to year as stated in the Journals.

¹² See Bankers' Magazine, 1860, 583; Report of 1790.

During this period, the inability of the government to meet its expenses led to an increase of the foreign indebtedness. Also the arrearages of interest on the domestic debt continued to accumulate, so that the year 1789 showed a great increase in the public debt.

The appropriations made by Congress for the running expenses of the government from 1784 to 1788 possess considerable interest. In round numbers they were as follows:¹

For service of 1784.....	\$457,000
For service of 1785.....	404,000
For service of 1786.....	446,000
For service of 1787.....	417,000
For service of 1788.....	326,000

Total.....	\$2,050,000
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The adjoining table presents an analysis of the objects of expenditure included in these appropriations:

For the civil list ²	\$631,000
For the army and navy.....	\$882,000
For Indian expenditures.....	\$91,000
For geographer's department.....	\$22,000
For pensions.....	\$146,000
For contingencies.....	\$279,000

From the Report of 1790 we are able to ascertain the amount of money actually expended by the United States at the treasury from January, 1784, to September 12, 1789. The adjoining table shows these expenditures which have been classified under the four heads of repayments of anticipations on the revenues, payments for the ordinary service of government, payments for foreign interest, and payments for interest on the domestic debt. These domestic interest payments were made by drawing in through taxes the indents issued for arrears of interest. The repayments of anticipations have been separated from the other expenditures in order to avoid the error of counting these items twice. Of course the anticipations existing on January 1, 1784, must

¹ See Journals of Congress for each year.

² For use of this term, see p. 242, note 6.

be included in the total expenditures of this period, since they formed a deduction from the revenues of 1784.

Expenditures from 1784 to September 12, 1789, at the treasury.

	Repayments of antici- pations.	Ordinary service of government.	Interest on foreign debt.	Interest on domestic debt paid in indents.	Balances in treasury or deficits.
1784	\$314,183	\$535,389	.....	.....	+ \$18,440
1785 .....	.....	380,613	\$209,874	.....	+ \$41,902
1786 .....	.....	364,596	75,000	\$38 895	— 59,571
1787	59,571	337,734	31,992	370,257	— 105,815
1788	105,815	337,364	.....	1,033,999	— 174,189
1789 (to Sept. 12.)....	174,189	157,986	.....	90,721	— 189,906
		\$2,163,685 ¹	\$316,866 49	\$1,553,873 96	

A comparative table of the receipts and expenditures at the treasury during the years covered by the Report of 1790 gives the following results:

EXPENDITURES.		RECEIPTS.	
<i>In Specie.</i>		<i>In Specie.</i>	
Anticipations previous to 1784	\$314,183	From taxes	\$1,945,325
Service of government	2,163,685	From bills of exchange	333,117
Interest on the foreign debt	316,866	From miscellaneous sources	338,000
Total in specie	\$2,794,734	Total in specie	\$2,616,442
Error	11,614	Deficit on Sept. 12, 1789	189,906
			\$2,806,348
<i>In Indents.</i>		<i>In Indents.</i>	
Interest on domestic debt	\$1,553,873	From indents	\$1,541,163
		Error in accounts of year 1788	12,000

The error of \$11,000 in the account of the specie transactions does not effect the general accuracy of this table.

¹ This includes \$25,825 spent in 1787 expressly for the foreign service, also some very small sums expended for salaries of foreign ministers.

The most careful examination has failed to show where the discrepancy has crept in. It may be due to slight errors or confusion in the original accounts. In the case of the indents there is certainly an error in the accounts for 1788, as the Report states that \$12,000 more indents were cancelled in that year than appear to have been paid into the treasury.¹ All the items included in this table under the head of expenditures have been taken from the table that immediately precedes. The account of the receipts has been taken from this same Report of 1790, and the individual items have been already given in the earlier chapters of this work.

The greater part of the European expenditures of the government does not appear in this statement of the treasury transactions. The only items so included are the payments for interest on the foreign debt and a few thousand dollars which are mentioned in 1784, 1786, and 1787 as expenses belonging to the European service.

But we have a report presented to Congress in 1788,² which gives among other things a statement of the receipts and expenditures in Europe from January 1, 1784, to April 1, 1788. In most particulars the figures of this report agree with the report of 1790, and from it has been compiled the following statement of the financial transactions in Europe during this period. In one or two cases Bayley's History of the National Loans has furnished additional materials. In this way an almost complete account of the foreign transactions has been secured up to April 1, 1788. Care has been taken to exclude any items of expenditure that may appear also in the accounts of the treasury.

¹ See *Banker's Magazine*, 1860, 589, 590.

² *Journal of Congress*, Sept. 20, 1788.

European expenditures not included in table of expenditures at the treasury.

	Anticipations existing on Jan. 1, 1784 ¹ .	Payments for interest on foreign debts.	Expenses of foreign serv- ice of the U. S.	Miscellane- ous ex- penses.	Total ex- penses in Europe.
1784 to April, 1785....	\$350,000	\$67,889	\$119,825	\$48,638	.....
April, 1785, to April, 1788.. .....	.....	481,516	200,404	89,426	.....
	\$350,000	\$549,386 20	\$320,229 29	\$138,064 80	\$1,357,680 29
Balance in favor of the U. S., April 1, 1788.. .....	.....	.....	.....	.....	\$23,307 80

These expenditures in Europe were met by the proceeds of the foreign loans, and by a few small receipts from miscellaneous sources.² It must be remembered that from these same revenues came also the \$333,117 that was drawn into the national treasury by bills of exchange.³ The sums derived from foreign loans up to the end of 1788 amounted to \$1,896,000,⁴ a portion of which was received after April 1,⁵ the date given in the Journal of Congress.

The statistics already presented do not include any payments of foreign interest after April, 1788. Up to that time the payments had amounted to \$866,252, of which sum \$316,866⁶ had come from the national treasury, and \$549,386 had been drawn from funds held in Europe.⁷ But payments were made after that date, as is shown by Hamilton's Report on the Public Credit. In an indirect way we may be able to ascertain the expenditures for foreign interest up to the end of 1789:

¹ See Bayley, 311, 312.

² These are given in the Journal of Congress for Sept. 30, 1788. But the information contained in the report is not sufficient to enable us to ascertain the amount with any accuracy.

³ See p. 148.

⁴ See p. 148.

⁵ Bayley, 397.

⁶ P. 183.

⁷ See last table.

Foreign interest accruing in 1784, 1785, 1786, 1787, 1788 ¹	\$2,176,553
Foreign interest accruing in 1789 ²	542,599
Total interest accruing, 1784-1789..	<u>\$2,719,152</u>
Arrears of interest to end of 1789 ³	\$1,640,071
Arrears of interest previous to 1784 ⁴ ...	67,037
Arrears between 1784 and 1789.....	<u>\$1,573,034</u>
Interest accruing 1784-1789	\$2,719,152
Arrears of interest, 1784-1789.....	<u>1,573,034</u>
Interest payments from 1784 to the end of 1789.....	\$1,146,118

We have seen that the payments up to April 1, 1788, were \$866,252. Therefore, the amount expended for that purpose between that date and the close of the year 1789 would appear to be \$279,866. This could have been met from the receipts from foreign loans after April, 1788, which were as follows:⁵

Balance of loan of 1787.....	\$66,000
Loan of 1788.....	400,000

These amounts would be sufficient to meet these interest payments and leave a balance of \$186,134, to which should be added the balance of \$22,307 existing on April 1, 1788.⁶

On the basis of the results already obtained there has been prepared the following table of the approximate receipts and expenditures during these closing years of the Confederation.

¹ Journal of Congress, August 20, 1788.

² Report on Public Credit, State Papers, Finance, I, 22.

³ Report on Public Credit, State Papers, Finance, I, 26.

⁴ Journal of Congress, April 5, 1784.

⁵ See Bayley's tables of the quarterly issues and redemptions of these loans, in his History of the National Loans, 397.

⁶ See p. 185.

Expenditures, 1784–Sept., 1789.	Revenues, 1784–Sept., 1789.
Domestic expenditures, excluding interest on foreign debt, see p. 183.....	<i>In Specie.</i>
\$2,477,868	From taxes, see p. 164..... \$1,945,825 (This excludes the \$117,000 credited by Hamilton after September, 1789.)
Foreign expenditures, excluding interest on foreign debt, see p. 185.....	From foreign loans, see p. 148..... 2,296,000
808,293	From miscellaneous sources, see p. 169..... 338,568
Interest on foreign debt, see p. 186.....	Total revenues in specie..... \$4,579,893
1,146,118	Deficit in Sept., 1789, at the national treasury, see p. 183..... 189,906
Total specie expenditures.....	
\$4,432,279	
Unexpended balance of foreign loan, see p. 186.....	
Indefinite	
Domestic interest redeemed in indents, see p. 164.....	From taxes payable in indents, see p. 164.....
\$2,371,154	\$2,371,154
Domestic debt cancelled by sales of public land, see pp. 170, 171....	Obligations paid in for public lands, p. 170.....
\$960,915	\$960,915

These transactions may be summarized in the following manner: The expenses of government, domestic and foreign, had been about \$3,476,067, of which amount \$189,906 remained unpaid on September 12, 1789. The principal of the domestic debt had been decreased \$960,915 by the receipts from the public lands; while the arrears of interest had increased from \$3,109,000¹ to \$11,493,858 at the end of 1789,² in spite of the fact that \$2,371,000 of indents had been drawn in by taxes. The principal of the foreign debt had increased from \$7,830,517³ to \$10,098,707,⁴ while the arrears of foreign interest had grown from \$67,037⁵ to \$1,640,071⁶ at the end of 1789.

¹ See p. 181.

² See p. 145, note 5.

³ See p. 181.

⁴ See p. 148.

⁵ See p. 181.

⁶ See p. 148.

PART II.

THE FORMAL ORDERING OF THE FINANCES.

CHAPTER I.

THE ADMINISTRATION OF THE FINANCES.

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In the field of finance it is especially true that skillful administration is as important as wise legislation. Perhaps no department of governmental business presents

greater difficulties than are offered in financial administration; and it was at this point that the Continental Congress committed some of its worst mistakes, and exhibited the greatest incompetency. During the larger part of the period under consideration, the administration of the national finances remained extremely weak and hopelessly inefficient.

The Congress of 1775 was hardly more than a consultative body, although compelled by the force of circumstances to exercise certain functions that partook of a national character. When Congress assumed control of the Continental army, issued paper money, and undertook the direction of foreign affairs, the necessity of delegating executive powers was at once manifest. But it is not at all strange that effective executive departments were not immediately formed. First of all, the Congress was regarded as a temporary body, assembled for a temporary purpose; and consequently no need for a permanent executive was at first experienced. This was changed when independence was declared, but a serious obstacle yet stood in the way of the development of executive departments. It was through the royal officials in the old colonial governments that the oppression of Great Britain had been most seriously felt, and a widespread distrust of all executive power had grown up in the colonies. This influence was strong in the Continental Congress, and it long delayed the establishment of effective departments for the conduct of the business of the government. Congress began by parcelling out executive functions among numerous committees, but was soon forced to concentrate authority in the hands of a number of boards. From these, in the course of time, unified executive departments developed; but we shall find this process to have been most difficult in the department of finance, where the jealousy of executive authority seems to have been most marked. In this ab-

sence of a unified, responsible administration lay one important source of financial disorders.

In the development of the department of finance an additional difficulty existed. In this direction the experience of the colonies previously to 1775 had been extremely limited. The financial transactions of the colonial governments had been small in amount, and of a simple and even primitive character. There were in America, therefore, no men skilled in the business of the financier; and it was necessary to commence at the very beginning and gain the experience necessary to the establishment of a sound system of national finance. It is not surprising, therefore, that at the outset Congress was unable to secure an efficient administration. But there is no excuse for its failure to do so later on when the way had been clearly pointed out, and it had found in Robert Morris an able financier.

When the first bills of credit were issued, Congress appointed two "Treasurers of the United colonies," to have charge of these funds. At the same time, also, the colonies were requested to choose colonial treasurers, for the purpose, evidently, of collecting the money to be raised for the purpose of sinking the emissions of paper. Two months later,² some difficulty having arisen concerning the settlement of certain accounts, a Committee of Accounts or Claims was formed, to "examine and report" on all accounts against the government. This committee adjusted accounts and reported to Congress the amounts due, whereupon payment was ordered. Early in 1776,³ as the government's financial transactions increased in importance, Congress created a

¹ July 29, 1775. Possibly South Carolina furnished a precedent for this appointment of two treasurers. In 1771 two joint treasurers were appointed in that colony. See Whitney, *Government of the Colony of South Carolina*, 46.

² Sept. 25.

³ Feb. 17.

standing committee of five members to superintend the conduct of the treasury. This body was the nucleus from which the treasury department finally developed. The committee was granted quite extensive powers. It was to examine the accounts of the treasurers, to employ proper persons for liquidating the public accounts, and to superintend the emission of bills of credit. Such were the first steps in the development of a system of financial administration.

This action was no sooner taken than expanding business necessitated an enlargement of the treasury establishment. The standing committee was authorized¹ to employ one or more clerks for keeping the public accounts, and to provide books and a suitable office for that purpose. Then the Treasury Office of Accounts was established.² At its head was an auditor-general who was to superintend the clerks and assistants employed to keep the public accounts. This office was placed under the control of the standing committee of five, which was thereafter known as the Treasury Board.³ During the following July⁴ the Committee on Claims was discharged, and its business turned over to the Office of Accounts. But special committees were continually employed even after these additions to the financial machinery of the government; also, from time to time, commissioners were appointed to audit and adjust special accounts that were likely to prove difficult to settle. Thus the structure of the department became more and more complicated.

Later in the year Congress voted to resort to a domestic loan, and opened loan offices in each of the States.⁵ The loan office receivers, besides securing loans and paying out interest money, soon came to exercise other func-

¹ Feb. 23, 1776.

² April 1.

³ In this year South Carolina placed its treasury department under the charge of three commissioners. See Whitney, *Government of the Colony of South Carolina*, 46.

⁴ July 30.

⁵ Oct. 3, 1776.

tions. In 1781¹ Congress provided for the appointment of other persons to act as receivers of taxes besides the loan officers; but in 1785² all such were discontinued, and the loan office receivers remained the only financial agents which the government had in the different States. Unfortunately, the duties of the loan office commissioners were not strictly defined until 1785,³ and consequently the business of the offices was poorly and loosely conducted.⁴ In some cases the greatest negligence and even fraud appeared. An example of the irresponsible methods employed is seen in the case of the indents, or certificates of indebtedness, issued from the offices after the government ceased to make payments of interest on the domestic debt. The practice of issuing these interest indents originated with the loan officers, and was continued in spite of the efforts of Morris to stop such a proceeding.⁵ In 1784⁶ Congress finally sanctioned the issue of indents by making them receivable in payment of taxes. No greater success seems to have attended the experiment with Continental receivers of taxes in 1781. Congress hoped that these receivers would prove more successful than the loan officers in collecting taxes. We have the record of Hamilton's efficiency as Continental receiver for the State of New York⁷ in 1782. But his case was exceptional,⁸ and Congress saw fit to discontinue the system in 1785. Not the least of the weaknesses in the financial administration lay in the methods of collecting requisitions and of conducting the business of the loan offices.

The treasury establishment was enlarged in 1777⁹ by the

¹ Nov. 2.

² April 15.

³ September 29 and 30.

⁴ See Sumner, *Financier*, II. 119-120; Bolles, I. 327-328.

⁵ See letters by Morris, *Dip. Correspondence*, XI. 488, 500; XII. 483, 488.

⁶ April 28.

⁷ See Lodge's *Hamilton*, 35; Morse's *Hamilton*, 75, 76; *Hamilton's History of the Republic*, II. 288 et seq.

⁸ Sumner, *Financier*, II. 73

⁹ March 13.

appointment of Commissioners of Claims to adjust accounts and hand them over to the auditor general by whom they were to be reported to Congress. The following year¹ saw provision made for a Continental treasurer of loans, who should have charge of the expanding credit operations of the United States. Shortly after,² Congress established a Standing Committee of Finance to consider the state of the national finances, and report from time to time. Robert Morris was chairman of this committee, which frequently reported to Congress on important matters.

Manifestly this system of administration was cumbersome and ineffective. Authority was so divided between the five members of the Treasury Board and the Committee of Finance that no responsible and unified management could be secured. Moreover, it was impossible for members of Congress to transact properly the business of the Board while attending to their legislative duties. All these defects were seen by Morris as early as 1776;³ and, later on, Hamilton called attention to the same thing.⁴ A partial realization of these difficulties led to the remodeling of the entire establishment in September, 1778.⁵ The act which accomplished this purpose gave to the department some degree of unity. It provided first of all that a building should be secured, in which the various officers of the treasury should be brought together. The treasury officials were to be a comptroller, who was authorized to appoint two clerks to assist him; an auditor, also authorized to appoint two clerks; a treasurer, who should appoint one clerk; and six commissioners of accounts, who were to be divided into two chambers of accounts, each chamber employing two clerks who should be appointed by Congress. It is interesting to notice that the comptroller, treasurer, and auditor were authorized to ap-

¹ July 15, 1778.

² August 27, 1778.

³ American Archives, Series V. III. 1241.

⁴ Hamilton's History of the Republic, II. 92, 93.

⁵ September 26.

point their own clerks, and were made responsible for their conduct.

The duties of all these officers and the forms of departmental procedure were quite minutely prescribed by this act. All accounts were to be first adjusted by the auditor, and then referred to the chambers of accounts for examination and correction. After this the accounts were to be re-examined and finally endorsed by the auditor, and forwarded to the comptroller. This officer, who kept the treasury books, was to file all accounts and vouchers in each case, and issue drafts on the treasurer for the amounts called for. After payment was made on these drafts, the treasurer was required to send the receipts to the comptroller's office; and also to turn over his accounts monthly to the auditor for examination. Finally the act sought to provide for a more regular system of reports, and for more effective means of securing the payment of all sums due to the United States. The Treasury Board was still retained as a general supervisory body and an intermediary between Congress and the officers of the treasury.

This act shows a great advance over the previous methods of financial administration. Not only have the titles of the more important treasury officials been retained to the present day, but the system of checks and balances here instituted is much the same as that now in operation between the different branches of our Treasury Department. Indeed it would be difficult to improve upon some of the leading features of this treasury establishment. The law of 1789, which established our present Department, owed much to this act of 1778 and to the subsequent modifications introduced in 1779 and 1781.

It was only a month after this that Congress invited Dr. Richard Price, the well known English financier, to come to this country and help to regulate the national finances.

¹ See Diplomatic Correspondence, III. 64. Also Adams, Public Debts, 251-252; Bancroft, V. 203; Ross, Sinking Funds, 12-13.

Through his essays on "Liberty" and on "Public Credit and National Debts," he had become well known in America; and there may have been reason for thinking that he would accept such an invitation. In this action Congress was probably influenced chiefly by Price's scheme for paying the English debt, by which a generation of Englishmen was deluded. But the invitation was declined by Dr. Price, who expressed, however, the assurance that he looked upon the United States "as now the hope . . . of mankind."

Within a year¹ Congress introduced radical changes into the administration of the treasury. The old Treasury Board was abolished, and the financial management was placed in the hands of Commissioners or Board of Treasury. The Board was to consist of five persons, and only two of these were to be members of Congress. Its members were given the general superintendence of all the financial transactions of the United States, and were placed in control of the treasury officials. The office of comptroller was abolished, but many of the features of the act of 1778 were retained. Six additional auditors were appointed for settling accounts and claims arising in the army, and they were required to reside in that part of the army to which they were assigned. This act was no real improvement over that of the previous year, and was nothing more than an attempt of Congress to secure an efficient administration without going to the length of placing the control of the treasury in the hands of a single man.

This Board of Treasury continued in office for about two years. Manifestly unity and responsibility were as conspicuously lacking in this as in former systems. To this attention was called by Hamilton in the letter to which reference has already been made.² The members of the Board were often incompetent, their methods of conducting

¹ July 30, 1779.

² See p. 193.

business were lax and roundabout, accounts were loosely kept, and the government was imposed upon in all directions.¹ After a while the conduct of the Board began to be much criticised, and finally great dissatisfaction arose. Congress was led to investigate the management of the treasury. In August and November, 1780, committees submitted reports on this subject.² Some internal disorders were discovered, and one of the committees was induced to recommend the removal of two members of the Board for "disgusting conduct." Certain irregularities also appeared, but there was no revelation of gross frauds. Many of the complaints seem to have been due to a lack of courtesy on the part of the Board and a disinclination to give full publicity to the transactions of the department. In May, 1781,³ another committee exonerated the officials from charges of this last character.

But whatever may have been the truth of these attacks on the integrity of the Board, it is nevertheless true that the inefficiency and laxity of the financial management had been almost incredible. For this, Congress, as well as the officials of the treasury, must be held responsible. A favorite method of making expenditures had been to place money in the hands of committees or of individuals to be expended for definite purposes. In many cases such moneys were never accounted for. No satisfactory returns were rendered for \$2,100,000 advanced to the Secret Committee of Congress previous to August, 1779.⁴ Many persons, even officers in the civil departments, refused to render any accounts.⁵ There was the greatest delay and confusion in the settlement of all business. Many accounts had been settled without any authority, or without proper vouchers. Mention is made of

¹ See Sumner, *Financier*, I 8; Bolles, I. 505.

² See Guggenheimer, 135-137.

³ See *Journal of Congress*, May 16, 1781.

⁴ *Journal of Congress*, Sept. 30, 1778.

⁵ Letter of Morris, *Sparks's Diplomatic Correspondence*, XII. 490.

two of these, amounting to \$500,000 in specie, concerning which an auditing committee appointed by Congress reported that it was doubtful if many of the claims there made against the United States had any solid foundation.¹ Letters by Morris point to similar conditions.²

Of the money expended in France the greater portion was never accounted for. The auditing committee of 1788 places this amount at about \$4,000,000. Silas Deane, one of the three commissioners sent to France, conducted financial matters most recklessly, and left only confused accounts. This was caused not by dishonesty on his part, but by extremely lax business methods. Deane was attacked by his enemies in Congress, and most unfairly treated; but the accounts left by him were never satisfactorily adjusted.³ After this, Franklin became the financial agent of the United States in France. Possessing, as he did, the confidence of the French government and the ability to secure loans and subsidies, the American cause depended almost solely on him during the critical years from 1779 to 1782. His character is a sufficient guarantee of the honest conduct of affairs during that time; but it is also the only one that we have. While he had always protested that he was not a business man, and not capable of keeping accounts, he nevertheless sought before he returned to America to obtain a settlement of his affairs. Congress neglected, however, to perform this simple act of justice; and no adjustment was ever secured.⁴ In 1782 Congress, at the suggestion of Morris, proceeded to make provision for the settlement of the European accounts; and finally despatched an agent to Europe on that mission.⁵

¹ Journal of Congress, Sept. 30, 1788.

² Sparks's Diplomatic Correspondence, XII. 442.

³ See Bolles, 227-233; Wharton, Diplomatic Correspondence, I. chap. XIV. The report of the committee that investigated Deane's affairs is to be found in Sparks's Diplomatic Correspondence, II. 162. It is partly unfair and colored by Arthur Lee's dislike of Deane.

⁴ See Morse's Franklin, 411, 412. On the whole subject, see Wharton's Diplomatic Correspondence of the Revolution, I. chap. X; Morse's Franklin, 305-351.

⁵ Journal of Congress, May 28, 29; Nov. 18, 20, 1782.

But this purpose was only partly fulfilled; and these transactions have always remained "involved in darkness," as was stated by the report of the committee of Congress in 1788.

The facts already presented show what confusion must have attended the transactions of the treasury. Hamilton, in 1790, was obliged to place the expenditures for 1780 at the round number of \$3,000,000,¹ which was evidently a mere estimate. Congress had constant difficulty in securing information concerning the exact condition of the treasury. At the same time public property was commonly misused and poorly cared for. Great waste arose in this way at the very time that the resources of the country were reduced to the lowest point. In the report of a committee of investigation from Valley Forge it is stated that the "property of the continent is dispersed over the whole country."²

In both methods and objects of expenditure the public moneys were oftentimes squandered. There was found everywhere the widespread corruption that so often attends the purchase of army supplies.³ Moreover, the expenditures were oftentimes conducted on a most extravagant scale;⁴ and this, too, in spite of the efforts made by Congress for retrenchment and reform. Also for a long period it was attempted to supply the army directly with specific supplies. Enormous waste was produced in this way;⁵ but, yet, it was only with great difficulty that Morris was allowed to institute the system of obtaining supplies by contract.

Finally, the business of the Board of Treasury was conducted with a slowness which precluded the possibility of an efficient administration. An example of this has been preserved in a letter of an acting quartermaster general of the army.⁷ This officer writes, "I am obliged for every de-

¹ Elliot, *Funding System*, 10.

² See Sumner's *Hamilton*, 86.

³ See Kapp, *Life of Kalb*, 143.

⁴ See Durand, *Materials for History of the Revolution*, 218, 219; Kapp's *Life of Kalb*, 140.

⁵ Sumner, *Financier*, I. chap. XI.

⁶ See Bolles, I. 283-285.

⁷ Quoted in Bolles, I. 306-307.

mand upon me to . . . make a special application, and some times, although not commonly, I get some kind of an answer in the course of two or three weeks after applying. The 21st of June I sent an application on the estimate of Colonel Cox . . . ; about ten days afterward I got a warrant for the sum; yesterday I got a letter of advice from the board to the treasurer, and to-day¹ I have got near one-fifth of the money. This movement, slow as it may seem . . . has been pushed with uncommon assiduity, and with more than common success." In such methods lay an important cause of the financial weakness of the United States during the period of the Revolution.

In 1781 Congress finally proceeded to remodel all the executive departments, and to place a single head in charge of the business of each. This step had been postponed as long as possible, and was taken reluctantly in response to a strong popular demand for such a change.² The old administrative boards had been as inefficient as such bodies must generally prove for executive purposes. Affairs had come to such a pass that it was manifest that the old system of divided authority could not longer continue. Early in 1779³ Congress had instructed the Committee of Foreign Affairs to secure information concerning the executive departments of various foreign governments. But a delay of nearly two years ensued before the much needed changes were inaugurated.

Up to this time the development of the various administrative boards out of the early committees of Congress had proceeded largely according to the needs of each particular case, and without very much conscious attempt to pattern after foreign systems. It is true that the Boards of War, Treasury, and Admiralty, had derived something of their forms from analogous bodies that existed in England at that time; but it may be doubted whether more than the

¹ July 13, 1780.

² See Guggenheimer, 148-155.

³ Secret Journals of Congress, II. 130.

general conception of the system of board management was derived from this source. It also seems to be a fact that the Chambers of Accounts created in 1778 had their prototype in the French "Chambres des Comptes;" and that the title, if not the office, of comptroller was of French origin. But this is as far as foreign influence can be traced with any certainty.

But the inquiries into foreign systems which Congress instituted in 1779 make the case quite different when we come to the changes effected in 1781. Early in that year,¹ Congress resolved to appoint a Secretary of Foreign Affairs, a Secretary at War, a Secretary of Marine, and a Superintendent of Finance; and conferred upon these officials powers sufficient to enable them to control and shape the affairs of their departments. This was a step distinctly in advance of formal English development. It seems probable that, at this point, Congress was considerably influenced by the example of the French administration, in which the principle of unified executive authority was developed further than in England, or, perhaps, anywhere else.

In the department of finance this needed reform met with more opposition than in any of the others. There were many people who thought that such a step would endanger the liberty of America. This thought was expressed by one member of Congress, who in a letter² characterized a treasury department as, "at best a very dangerous affair to the liberties of the people." But on February 7, 1781, the office of Superintendent of Finance was created; and, a few days later, Robert Morris was called to fill the position. The Superintendent was given all the authority necessary to the proper conduct of the department. He was required to examine into the state of the finances, and to digest and report plans for their improvement; to execute all acts of Congress concerning

¹ January 10, February 7.

² See Sumner, *Financier*, II. 121.

revenue and expenditure; to superintend and control the settlement of public accounts and the expenditure of public money; and to have general direction of all the branches of his department. Then, as soon as Morris had gained time to mature his plans, a reorganization of the entire establishment followed. The office of treasurer of loans was first discontinued,¹ his duties being turned over to the treasurer of the United States. On September 11 the other changes were carried into effect. The officers of the treasury were to be an assistant superintendent, a comptroller, a register, and a treasurer, together with such auditors and clerks as should be necessary. The comptroller was given the duties of an auditor general; the position of the treasurer was not materially changed; and the register was to be, as he is today, the chief book-keeper of the treasury. These three officers and the auditors were to be appointed by Congress.

The administration of Morris marks a new era in the financial history of this period. His business experience, supplemented by the training that he had received while chairman of the Standing Committee of Finance, had admirably qualified him for the position of Superintendent. Moreover, his wide reputation and recognized ability enabled him to secure a large degree of independence in the execution of the powers entrusted to him. Congress finally authorized him to remove from office for just cause all officers of the treasury that were not appointed directly by Congress, and gave power to suspend all others pending an investigation of any charges preferred against them.² This was a matter which Morris considered a necessary condition of effective administration. Thus, for a time, Congress ceased to interfere in the purely administrative work of the treasury. Morris appointed to the position of Assistant Financier, Gouverneur Morris, from whom he subsequently received

¹ July 23, 1781.

² April 21, 1781.

important assistance.¹ Then, having matured comprehensive plans for the conduct of the national finances, the Financier, as he was commonly called, assumed the management of the treasury department.

The condition of the finances at this juncture was as critical as can well be imagined. The issues of paper money had long since been exhausted. With the disappearance of the old currency, the receipts from the loan offices gradually ceased. Taxes, with the exception of those which called for specific supplies, had yielded practically nothing for many months; and a considerable time was yet to elapse before Morris would be able to secure any revenue from this source. Thus the sole dependence of the treasury was the loans and subsidies which Franklin was still able to secure from the French government. The policy of Morris looked to the inauguration of a complete plan of constructive finance. First he desired an effective system of taxation, favoring federal taxes collected by the United States in the form of customs duties. Then he proposed to bring about a retrenchment in expenditure and a thorough reform in administration. Finally he sought to obtain further loans in Europe, which he regarded as necessary in order to meet the whole burden of war expenditure, and to tide the government over the interval that must elapse before his new plan for establishing domestic revenues could be set in operation.²

When Morris finally entered upon his duties in June, 1781, his only available resources were such bills of exchange as Congress was in the habit of drawing on the foreign envoys, without knowing whether any funds existed in Europe for meeting the bills. Almost immediately General Washington called upon the new Superintendent to find the means necessary to carry on the York-

¹ See Roosevelt's *Gouverneur Morris*, 103 et seq.; Sumner, *Financier*, I. 270; Sparks, *Gouverneur Morris*, I. chapters 13 and 14.

² In this account of Morris's administration our chief dependence has been upon the careful investigations of Prof. Sumner. Bolles has been consulted with some advantage.

town campaign. Morris was obliged to provide the army with transportation from the head of the Chesapeake, to advance a month's pay to the soldiers, and to forward specific supplies to points convenient for the expedition. By means of the most strenuous exertions he was enabled to meet these demands. Fortunately in August \$462,000 in specie arrived from France; and this sum in the careful hands of Morris was productive of the most important results. Thus through heroic efforts the campaign was brought to a successful termination. The total expenditures from February to December 31 were \$723,000, more than \$500,000 of which was devoted to the support of the army.¹

It is not possible within the necessary limits of this chapter to enter into the details of the work of Morris during the next three years. The most that can be done is to outline the general features of his administration. From the very beginning he endeavored to secure from the States a prompter compliance with the requisitions made by Congress. Constant appeals and statements of the weakness of the treasury were sent to the governors of the States. These entreaties were commonly neglected; but, in spite of all difficulties, after the middle of 1782 the receipts from the requisitions began to supply a considerable portion of the government's revenue. Morris appreciated, however, the weakness of the requisition system, and urged upon Congress and the States the establishment of federal import duties. All the influence that he could command was used to induce the States to grant this power to the general government. Besides urging the importance of taxation, Morris seized upon every possible expedient to increase the income of the treasury. He conducted commercial transactions on behalf of the United States, and engaged in other ventures which were hardly dignified undertakings for a Superintendent of Finance.²

¹ The Report of 1790, *Bankers' Magazine*, 1860.

² E. g. bill-kiting, see Sumner, *Financier*, I, 282-3; clipping coin, *ibidem*, II, 44-45.

While struggling to increase the national revenues, Morris sought with equal care to secure economy in the matter of expenditure. During his superintendency Congress was induced, as will be shown in the following chapters, to prepare the budget more promptly and carefully than at any other period in its history. After appropriations were once made, Morris manifested a determination to apply public moneys solely to the purposes contemplated by Congress.¹ How far he adhered to this intention it is impossible to ascertain; but it is clear that he alone of all the administrators of the treasury realized the evils that attend the transfer of appropriations and the diversion of public funds. In all departments of expenditure retrenchment was carried on, and numerous economies effected. Wasteful methods were changed, useless offices abolished, and the running expenses of the government largely reduced.² A comparison of the estimates of expenditures for 1781 and 1782 shows how successful Morris was in his efforts in this direction.³

Under the new regime the business of the treasury was conducted with a dispatch hitherto unknown. Every effort was made to secure a prompt settlement of the public accounts. Order was gradually introduced into the transactions of the department. Congress and the States were furnished with more exact information concerning the state of the finances, although publication of the quarterly reports of the treasury was deferred until 1785. In order to assist the government in its financial operations, Morris secured the consent of Congress to the establishment of a bank.⁴ This plan had been previously suggested by Hamilton, Gouverneur Morris, and perhaps others.⁵ Early

¹ See letter of Morris in *The Historical Magazine*, VI, 169.

² See Sumner, *Financier*, II, 107, for description of methods of treasury administration under Morris.

³ See p. 175.

⁴ Journal of Congress, May 26, Dec. 31, 1781.

⁵ On the establishment of the bank, see Sumner, *Financier*, II, chap. XVII; Lodge's *Hamilton*, 27; Morris's *Hamilton*, 69-73; Roosevelt's *Gouverneur Morris*, 103; Bolles, 273-275; Lewis, *Bank of North America*.

in 1782 the Bank of North America, incorporated both by Congress and the State of Pennsylvania, commenced operations which were based principally upon \$250,000 of public money which Morris had invested in subscription for its stock. After surmounting many difficulties, this institution rendered the government most valuable assistance. At different times during his administration, Morris borrowed from the bank \$1,249,000, while the United States received \$22,867 in dividends up to the time that its stock was surrendered in re-payment of money borrowed from the institution. For these loans, interest amounting to \$29,719, was paid.

The extent and variety of the duties which Morris was called upon to perform baffle all description. Never, perhaps, has a minister of finance carried on operations of a more miscellaneous character. There was certainly no branch of administration in which his influence was not felt. On several occasions he employed his well established personal credit to support that of the United States. This seems to have been the case with the notes amounting to over \$300,000 issued to the army at the time of its disbandment. By reducing the expenses of the government he was able to reduce gradually the number of notes outstanding; and to retire from office in November, 1784, with the assurance that all would be paid at maturity. There are numerous stories to the effect that he devoted large amounts of his own money to the public service. Thus he is said to have advanced \$1,500,000 toward the expense of the Yorktown campaign. But such statements have no basis in fact. In an account¹ which Morris rendered after the capture of Cornwallis, there is a record of \$12,000 which the Superintendent had advanced to the United States. But this is the only transaction of the sort that is evidenced by any of his accounts.

A final feature of Morris's work was his attempt to clear

¹ Sparks's Diplomatic Correspondence, XI. 493.

up the confusion which attended the greater part of the domestic indebtedness that had been contracted in the prosecution of the war. The loan offices early claimed his attention. Their operations had often been carelessly conducted, and Morris made constant efforts to secure from the loan office commissioners a settlement of their accounts. Then a large number of individuals held obligations that had been issued by military officials in payment for supplies purchased for the army. The liquidation of such claims was pushed forward as fast as possible, but the process of settlement was necessarily slow. Finally there had been no settlement of the accounts between the States and the general government. Some of the States claimed that they had already borne more than their fair proportion of the burdens of the war, and that it was unfair under such circumstances to expect them to make any further compliance with the requisitions ordered by Congress. To the adjustment of these accounts Morris devoted the greatest energy, but the difficulty of the work and the inaction of the State officials prevented the accomplishment of this design. While he endeavored to ascertain the exact condition of the public indebtedness, he also urged upon Congress the importance of funding this mass of debt, and of providing the means for its ultimate extinguishment. It was with this special purpose in view that he labored to have a system of federal imposts established. We have already seen how these efforts failed.

At the outset Congress manifested a desire to co-operate with Morris, and even consented to extend the sphere of his authority. But the Superintendent by his vigorous administration aroused bitter opposition in many localities. The States did not desire the establishment of any financial system that would have involved greater efforts on their part; and there soon arose the same factious contentions that frustrated so many of the best efforts exerted in behalf of an efficient national government. This feeling re-

acted upon Congress, which gradually withdrew its encouragement and active support. Personal enemies, prominent among whom were Arthur and William Lee, commenced a series of contemptible attacks upon the Financier, disparaging his administration, and charging him with having derived personal profit from his old position as a member of the Committee of Commerce.

At the opening of 1783 nothing had been done toward establishing the domestic revenues necessary to place the nation's finances upon a sound and honest basis. In spite of the careful management of the treasury, large expenses had been incurred in both of the preceding years; and the foreign indebtedness of the government had been increased. Perceiving that his plans for a permanent domestic revenue had failed, and that he no longer possessed the full support of Congress, Morris resigned his position as Superintendent.¹ In his letter to the President of Congress he said: "To increase our debts while the prospect of paying them diminishes, does not consist with my idea of integrity. I must therefore quit a situation which becomes utterly unsupportable."

But the army had not yet been paid, and no one but Morris could find a way of doing this. At the earnest entreaties of Congress, he consented to continue in office until some settlement could be effected and the army disbanded. As we have seen, the soldiers were partially paid by issuing notes, upon which Morris put his name in order to support the credit of the government.² After using him in this, the greatest service which the Financier rendered, his enemies resumed their attacks with a meanness which is hardly credible except to one who has become familiar with the asperities that attended the political controversies of that time. In November, 1784, Morris finally retired from his position, having made provision for the redemption of all the notes issued to the army.

¹ January 24, 1783. See Sparks's *Diplomatic Correspondence*, XII. 326.

² See Bancroft, VI. 82.

On June 17, 1783, a committee appointed by Congress "to enquire fully into the proceedings of the office of finance," submitted a report on the subject of Morris's administration of the treasury. One member of this committee was Arthur Lee, a most cordial hater of the Superintendent; and at least one of the others bore him no good will. Yet the committee was obliged to report that "it appears that the business of that office has been conducted with ability and assiduity, in a manner highly advantageous to the United States, and in conformity with the system laid down by Congress." It was also found that "since the appointment of the superintendent of finance, the public accounts of receipts and expenditures have been regularly and punctually kept; and that many of the accounts which preceded this institution have already been settled, and most of the others put into a train of adjustment. That all persons who have been entrusted with public money, under the present appointment have been regularly called upon for an account of its expenditure, and that their accounts have all been furnished, excepting only the quartermaster general," and some few others. Further, it is stated that, after comparison of Morris's accounts with those of earlier years, it appeared "that the order and economy which has been introduced since the establishment of this office, has been attended with great savings of public money, as well as many other beneficial consequences." Among other reforms the committee found "that in the department of commissary of issues no less than two hundred and fifty persons were discharged, whose pay amounted to \$126,300 per annum. That in one instance a demand was made for one thousand tons of hay for the post of Philadelphia, of which ten tons only were granted. The residue being rendered unnecessary by the new arrangement."

In view of all the attacks which were made upon Morris, it may be well to present one other piece of testimony,

which comes from a member of Congress who was thoroughly opposed to the Superintendent.¹ The member expressed himself in the following words, "I will tell you very freely that I am clearly of the opinion that, in mere money transactions, he has saved the United States a very large sum. I am of that sentiment, because a comparison of expenditures shows, that, since he has been in office, the expenditures have not amounted annually to half so much as they did before. I am also of opinion that much more regularity has been introduced in keeping the accounts than ever existed before. . . . I lay it down as a good general maxim, that, when a person is to be attacked, it is wise not to endeavor to depreciate his real merit; because this puts into his hands an advantage. If he can clearly exculpate himself in part, it renders that which is really true liable to suspicion, and consequently less efficacious. If you suppose that person (Morris) has rendered the public no valuable services, I acknowledge that there is a very considerable difference in our sentiments. If you suppose that he may have rendered valuable services, but that his notions of government, of finance, and of commerce, are incompatible with liberty, we shall not differ. I think, therefore, that the fort to be raised against him ought to stand on this ground, if, in urging his dismissal, or rather a new arrangement of the office, it shall become necessary to be personal. But I hope it will be generally agreed, that, if it was necessary to create an omnipotent financier in 1781, that necessity does not exist now."²

A few months³ previous to this final retirement of

¹ See letter of Samuel Osgood, Feb. 2, 1784. This is contained in the Massachusetts Historical Society Proceedings, 1862, 467.

² All the evidence bears out the conclusion that the charges brought against Morris's administration of the treasury were entirely groundless. The same is true of most of the other accusations relating to his conduct as agent of the State of Pennsylvania, and as a member of the early Committee of Commerce. Prof. Sumner finds on the books of the United States Treasury one account which shows a balance of \$93,312 against Morris. This the Financier explained as due to a wrong method of charging depreciations. See Sumner, *Financier*, II. chapt. 29; Sumner, *Robert Morris*, chap. 6.

³ May 27, 28, 1784.

Morris, the powers which had been entrusted to the Superintendent were again placed in commission, by the creation of a new Board of Treasury, consisting of three members. Considerable difficulty was experienced in finding suitable persons that were willing to take the position.¹ For several months after the retirement of Morris, the affairs of the treasury were conducted by the comptroller; and not until the middle of 1785 did the new Board of Treasury assume the direction of the department. The administration of this body furnishes nothing of any interest, its chief work being the adjustment of the tangled accounts of the Revolutionary period. It had become evident that, with the failure of the attempt to establish national revenues, the government of the Confederation was wholly unable to improve the condition of the national finances. Thus the Treasury Board had no stimulus to energetic action. In much the same way as the former Boards, it continued to administer the affairs of the department until succeeded by Hamilton in September, 1789.

The action of Congress in placing the department again in commission was a victory for the opponents of Morris and for the advocates of the system of board management. But there were many who recognized the real reasons for the apparent failure of the Financier, and the country did not lose the benefit of its experience under a capable minister of finance. In 1789 the question was fought out for the last time, and the department of finance was finally given a single head.

¹ See Journal of Congress, June 3, Nov. 30, Dec. 10, 1784; Jan. 25, April 1, 1785.

CHAPTER II.

THE BUDGET AND THE HISTORY OF BUDGETARY METHODS

Section I.—Historical Introduction.

The financial activity of the state centers around the receipt and expenditure of public money. In order to secure stability, there must be a constant adjustment of one line of activity to the other; and financial equilibrium must be constantly preserved by a formal ordering of revenue and supply. The accomplishment of this result involves, first, the ascertainment of the necessary objects and amounts of public expenditure; second, the determination of the methods to be employed in raising the needed money; and third, appropriate organs for collecting and applying the supplies devoted to the public service.

In modern representative governments the legislative departments have assumed final authority in the decision of questions of revenue and supply. The word budget has been used to designate the legislative enactment by which public revenues are determined and appropriations fixed for a definite period of time, usually a year.¹ Such a procedure implies, first, a preliminary estimate of necessary expenses and probable revenues; and second, a law authorizing the necessary forms and amounts of expenditures and taxes. At least, this is the case wherever perfect unity is realized in budgetary procedure.² Manifestly

¹ For a discussion of the scientific meaning of the word budget, see Stourm, *Le Budget*, chapter I, section 1. The term was first used in England about 1760 to designate the annual financial statement. See Dowell, *History of Taxation in England*, II. 169; Bastable, *Public Finance*, 468; Roscher, *Finanzwissenschaft*, sec. 150, note 1.

² On the subject of the budget see Bastable, *Public Finance*, Bk. VI., chaps. II. and III.; Leroy Beaulieu, *Science des Finances*, II. 1-191; Cohn, *Finanzwissenschaft*, secs. 170, 171; Jellinek, "Budgetrecht" in *Handwörterbuch der Staatswissenschaften*, II. 774; Roscher

some such preliminary estimate of income and expenses, and such an adjustment of resources to demands is an absolute necessity for any large public economy. Without it, adequate provision cannot be made for all the public wants; and there can be no coördination of revenue and expenditure.

But, if legislative authority is to be a reality in these matters, this preliminary determination of revenue and supply must be supplemented by effective checks on the collection and issue of money, and by the right to inquire into the actual application of all public funds. Such methods of control and audit are a necessary part of any system of legislative control of the finances. Of this more will be said in another chapter.

The term budget is one that has been but little used in the United States in the discussion of our national finances. This is, perhaps, due to the fact that the separate legislative management of the expense and revenue sides of our federal budget has destroyed that appearance of unity which characterizes the methods of those foreign countries in which the word is commonly used. Indeed, it is possible by a process of strict definition to deny that budget is a proper term to apply to the series of separate acts by which Congress each year deals with the question of federal revenue and supply.

It seems desirable, however, to use the term in the discussion of our national finances. In so doing we are in accord with the usage of other countries; while, at the same time, we are reminded that there is after all a fundamental connection between our separated revenue and appropriation laws. Formal unity is, of course, lacking in our present budgetary methods; but that is no reason for not employing the word budget, in a broad sense, to designate the entire

Finanzwissenschaft, secs. 53, 150, 151; Schantz, "Budget," in *Handwörterbuch*, II. 758; Stein, *Finanzwissenschaft*, I. 200 et seq.; Stourm, *Le Budget*; Umpfenbach, *Finanzwissenschaft*, 489 et seq.; Wagner, *Finanzwissenschaft*, I. 219-252, also in Schönberg's *Handbuch der Politischen Oekonomie*, III. 532 et seq.

process by which measures for our federal revenues and appropriations are prepared and enacted. Such is the sense in which the term will be employed.

Modern budgetary methods originated in England, where, nearly a century before our Continental Congress met, an effective budget system had been finally established. It will not be necessary to treat of the early stages of this development; but it is desirable to refer to the history of the English budget after the Revolution of 1688.¹

This Revolution, ending a struggle that had colored English history for several centuries, finally established parliamentary supervision and control of the finances, as of other branches of the government. Parliament instituted the system of annual appropriations for the public service. These were based upon estimates presented on the responsibility of the ministers, and specified both the objects and amounts of expenditure for the ensuing year. At the same time, the supplies for the royal household, the personal expenses of the king, and for the payment of pensions and certain civil offices, were separated from the rest of the expenditures and brought together into the "Civil List."² The various branches of expenditure were then assigned as charges on the permanent revenues of the government, and additional taxes were imposed whenever required to meet the expenses of any year. Thus the public revenues were devoted only to such purposes as Parliament should sanction, while there was secured a unified regulation and more accurate adjustment of receipts and expenditures.

The development of cabinet government brought the details of all financial transactions before the House of Com-

¹ For the history of taxation and appropriations before this date see Wilson, *the National Budget*, chap. I.; Stubbs, *Constitutional History of England*, II. sec. 274, III. secs. 370, 371, 437, 438; Bastable, *Public Finance*, 643-644; Gneist, *History of the English Constitution*, II. 4 et seq., 40 et seq., 150, 240, 293 et seq.; Roscher, *Finanzwissenschaft*, sec. 53.

² See Dowell, *History of Taxation in England*, II. 40-44; Macaulay, *History of England*, V. 355-358; May, *Constitutional History of England*, I. 193 et seq.; Todd, *Parliamentary Government*, I. 349, 350; Wilson, *The National Budget*, chap. VI.

mons, which had already established its superiority to the House of Lords in the matter of money bills. In this process the financial estimates and statements of the ministry developed into what was known as the budget, and intricate rules of parliamentary procedure were gradually adopted. Such was the form which English budgetary methods had assumed at the end of the eighteenth century.¹

*Section II.—Revenue and Supply in the American Colonies.*²

In order to understand the circumstances under which the Continental Congress evolved a budget system, it is necessary to refer to the experience of the individual colonies in their efforts to develop systems of revenue and supply. It is not within the scope of this essay to undertake any exhaustive presentation of this early budgetary history. Indeed, a vast amount of investigation into the subject of colonial finance will yet be required, before such a complete treatment will be made possible. It will suffice, however, for the purpose to draw from the most important secondary and the more accessible original sources a brief account of the development of budgetary principles in the thirteen colonies.

(A) The Separation of Powers.

Through the varying, yet similar, processes by which representative governments were instituted in each of the original colonies, nothing stands out with greater distinct-

¹ For the present English budget system, see, Blackstone, Commentaries, I. Bk. 1, chapters II. and VIII.; Buxton, "Budget," in Palgrave's Dictionary of Political Economy; Gneist, *Englisches Verwaltungsrecht*, I. 431; May, *Parliamentary Law and Practice*, chap. XXII.; Jellinek, "Budgetrecht," in *Handwörterbuch der Staatswissenschaften*, II. 775-777; Spofford, "Budget," in Lalor's *Cyclopedia of Political Science*, II. 318; Todd, *Parliamentary Government*, I. 689-825; A. J. Wilson, *The National Budget*, chap. VI.; Woodrow Wilson, *Congressional Government*, 137 et seq. For other European countries, see Leroy Beaulieu, II.; Stourm, *Le Budget*; Czoernig, *Darstellung der Einrichtungen über Budget*; Jellinek, "Budgetrecht," in *Handwörterbuch*, II. 777-787; *Proceedings of the Cobden Club*, 1874; U. S. Consular Reports, No. 90, March, 1888; Spofford, "Budget," in Lalor's *Cyclopedia*.

² For a list of the authorities referred to on this subject see the general bibliography, p. 271 et seq.

ness than the persistence and success with which the colonists insisted upon the right of their legislative assemblies to direct the finances. This side of colonial history is so familiar, that we can assume the facts of the separation of powers and the establishment of legislative control of the finances. In the following pages attention will be confined chiefly to a consideration of the formal methods of legislative procedure in budgetary questions.

(B) *Legislative Control of Revenue.*

While other forms of revenue existed,¹ taxes became more and more important in colonial budgets as the country developed, and as the colonial wars necessitated a heavy increase of public expenditures. This discussion, therefore, may safely be confined to the revenues derived from taxation, direct and indirect.

From the first, the colonists appreciated the fact that legislative control of taxation could be made effectual only by limiting the operation of tax laws to short periods of time. Over this subject arose some of the earliest conflicts between the royal, or proprietary, officials and the colonial assemblies. Direct taxes were regularly limited to a short period, while the indirect were restricted, but not so sharply.² In Massachusetts and New York, however, even the indirect taxes were continued from year to year by a constant re-enactment. Thus the governments were left without permanent sources of revenue, and legislative authority was insured.

Some of the earliest attempts to control the application of revenues arose in connection with acts for levying taxes. The assemblies frequently specified the purposes

¹ Ely, *Taxation*, 107 et seq.; Douglas, *Massachusetts*, chaps. III. and IV.; Ripley, *Virginia*, secs. 50, 106.

² Colonial history offers such abundant illustration of this that we need not refer to many special works on the subject. See Lodge's *American Colonies*; Douglas, *Financial History of Massachusetts*; Ripley, *Financial History of Virginia*; Schwab, *New York Property Tax*.

for which the taxes were imposed. This specialization of funds was often of such a general character as to prevent the realization of the purpose in view.¹ But, in other cases, taxes were levied for such special purposes as the salary of a governor, the construction of lighthouses, fortifications, etc. In Virginia taxes were pledged for the payment of public debts, and appropriated to that end, "and to no other use or purpose whatsoever."²

(C) *Legislative Control of Appropriations.*

As we have seen, the earliest method of controlling the expenditure of public funds was that of specifying in the tax laws the object for which taxes were to be raised. But this amounted to nothing more than the appropriation of lump sums for the general purposes of government, and left to the legislature little actual voice in the disposal of public moneys. Accordingly, we find in the colonies, at an early period, a movement in the direction of making supply bills specific in character, and of restricting their operation to a short period.

This is well illustrated in the history of New York. Some of the most bitter struggles of the eighteenth century in that colony centered around the efforts of the Assembly to limit the operation of supply bills to the space of one year, and to make the appropriations specific both in objects and amounts.³

In South Carolina, after 1721, the various tax laws contained "long appropriation clauses appropriating every penny raised to some specific object."⁴ To refer to the experience of other colonies would be but to multiply examples of the same character. These may perhaps be most

¹ In Massachusetts, for example, the first taxes after the provincial charter of 1691 were laid "for the defense of his Majesty's subjects and interests." See Acts and Resolves of the Province of Massachusetts, I., session of 1692.

² Hening, Statutes at Large, VIII, 650, March, 1773.

³ See North, in Magazine of American History, 1879, 165, et seq.; Roberts, New York, 287; Smith, Hist. of New York, 433; Bancroft, II, 400.

⁴ Whitney, Government of the Colony of South Carolina, 96.

conveniently found in Massachusetts, Pennsylvania, New Jersey, and Virginia.¹

The struggle for the limitation of the objects and amounts of appropriations arose oftentimes in connection with the salaries of the governors and other officials. This was especially true in Massachusetts, where the legislature even went so far as to reduce arbitrarily the salary of the governor, as a means of punishing that officer.² In New York we have an interesting message³ by Governor Clinton on this same subject. The royal governors continually recommended that England should create funds for the maintenance of royal officials in the colonies; and the desire to do this was one of the reasons for the final attempts to tax America.⁴ But the colonies perceived clearly the issue involved. Having found that the control over supplies was the most effective safeguard against encroachments by the royal officials, they were ready to resist to the utmost the attempt to establish in America a civil list independent of the grants of the colonial assemblies.⁵

Partly from opposition to the governor, and partly from unwillingness to raise the necessary taxes, the assemblies not infrequently refused to make adequate provision for the support of government. Perhaps North Carolina furnishes the most notorious instances of this sort.⁶ In Connecticut the salaries of the governor and other leading officials were dependent upon semi-annual appropriations, which is probably the shortest limit placed upon salary grants in any of the colonies.⁷

¹ Further reference will be made to Massachusetts in the following pages. For Pennsylvania, see Bancroft, II. 25, 26, 27; Gordon, 315, 336, 392; Franklin's Historical Review of Pennsylvania, 32; Minutes of the Provincial Council, I. 457, 468 et seq. For New Jersey, see Bancroft, II. 34; Crowell, 21. For Virginia, see Ripley, 95, 97, 99. For Maryland, see Scharf, II., 121, et seq.

² See Bancroft, II. 68, 69, 246; Felt, History of Taxation in Massachusetts.

³ Journals of the Legislative Council, 1022.

⁴ See Bancroft, II. 246, 247, 334, 350-351, 383 et seq.; Fiske, American Revolution, chap. I.

⁵ See Bancroft, II. 330, 350; III. 415, 416.

⁶ See Bancroft, II. 256, 341. See also the case of Pennsylvania, Bancroft, II. 571-572; III. 91.

⁷ See Public Records of Connecticut, 1771, XIII. 502, 566.

Toward the close of the colonial period legislative control of appropriations had become so well established, that the conditions existing in all the colonies correspond very closely with those depicted by Mr. Smith in his description of the state of government in New York.¹ Smith's words are as follows: "It will be seen that the democrattick branch of the colonial government had placed the governor, and almost every other officer, in a state of dependence upon its votes and measures. Not a single shilling could be withdrawn from the treasury, but by legislative consent. This was particularly galling to the lieutenant governor. It had stripped him of that executive patronage and influence, which was deemed by him so essential to the support of his administration. In truth, it was a great step towards that independence which was afterward obtained."

(B) *Restrictions on Transfers and Diversions of Appropriations.*

The strictest specification of the objects and amounts of expenditure will not, in itself, secure the application of all public funds in accordance with the will of the legislature. Money may be expended for purposes not strictly contemplated in the original appropriations; while unexpended balances are always arising so as to furnish an easy means of evading the specific provisions of appropriation laws. Such difficulties met the people of the colonies in their attempts to control expenditures, and became the subjects of special legislation.

In Virginia the desire to control the application of public moneys caused the legislature, as early as 1695, to appoint a treasurer who should be accountable to the House of Burgesses alone.² This officer was thus independent of the colonial agents of the Crown; and through him the Burgesses were able to control the administration of the finances. His duties came to be strictly prescribed, and he was required to give bonds for the faithful performance of his

¹ Smith, New York, 445.

² See Ripley, Financial History of Virginia, 102-103.

work.¹ Warrants for the payment of money were to be issued only in accordance with the acts of the General Assembly.

New York went still further.² The Assembly early gained control over all the officers charged with the collection and disbursement of the revenues of the colony, as did the Virginia House of Burgesses.³ This was accomplished by naming the occupant of each office in the act appropriating money for salaries. But a further step was taken at an early date. The Assembly resolved that the payment of any money by the treasurer before the passage of specific acts for its appropriation should be deemed a misapplication of funds, for which that officer should be held accountable.⁴ In subsequent acts the treasurer's accountability was further emphasized, as in the general appropriation bills of 1774 and 1775,⁵ by which the treasurer was instructed to account to the governor, the Council, and the Assembly for all payments made under the authority of those acts. In the appropriation bill of this last year all unexpended balances remaining in the treasurer's hands were specially appropriated for the support of the government.⁶

Massachusetts, also, provided restrictions of this same character. The general appropriation acts of the province specified the objects and amounts of expenditure, and then contained a general requirement that money should be expended "for no other purposes whatsoever."⁷ But of greater interest is a provision of the appropriation of 1733.⁸ This law required that all balances of appropriations arising un-

¹ See Hening, *Statutes at Large*, VI. 249.

² See *Magazine of American History*, III. 168.

³ Cf. also *Pennsylvania. Franklin's Historical Review*, 32; *Minutes of the Provincial Council*, I. 457.

⁴ *Smith*, 424.

⁵ *Laws of N. Y., 1774-1775*, 61 et seq., 94 et seq.

⁶ Compare also the cases of *Pennsylvania* and *South Carolina*. See *Franklin's Historical Review of Pennsylvania*, 32; *Minutes of the Provincial Council of Pennsylvania*, I. 457; *Whitney's Government of the Colony of South Carolina*, 45, 46.

⁷ *Acts and Resolves*, V. 103.

⁸ *Acts and Resolves*, II. C93.

der the act should lie in the treasury for the further order of the General Court.

(E) *Superior Powers of the Lower Branch of the Legislature in Budgetary Questions.*

From an early date in colonial history the lower houses of the colonial assemblies claimed in the matter of money bills superior authority over the upper. How far this was a mere reflection of the relations existing between the two Houses of the English Parliament, it is not easy to ascertain. But it is certain that in many cases a difference in the constitution of the two branches of the colonial assemblies, or a difference in the interests of the two bodies, is a sufficient explanation of the assertion of the superior powers of the lower house. The upper house was more subject to the influences of the proprietors or of the royal governors in many of the colonies. In Massachusetts, where both houses had a basis in election, it was found that the upper and smaller body oftentimes sided with the royal governors in disputes over financial questions. This was in many cases due to the fact that the position of the governor was sounder and wiser than that of the people's representatives; and it was not caused invariably by sinister influences exercised on the upper house. On the whole, it seems fairer to attribute to such causes the greater influence on this differentiation of the powers of the two branches of the legislature.

In Massachusetts, during the eighteenth century, disputes arose in the legislature over the right of the Council to make amendments to tax bills. An instance of this sort arose in 1746 when the House forced the Council to yield its claim to the right of amending such measures.¹ Much interest attaches to a resolution adopted by the House on this occasion; "it is very surprising that the honorable Board should in their vote of this day begin a grant of a

¹ See Felt, *Statistics of Taxation in Massachusetts*, 324, 325.

great expense to this Province; for how reasonable soever the particulars noted may be, yet the House apprehend such grants should always originate with the people, who are at the cost of them." In such questions the superior powers of the lower house became finally established by the first State constitution of 1780.¹ Here it was provided that, "All money bills shall originate in the house of representatives; but the senate may propose or concur with amendments, as on other bills." It was this particular clause which served as the model for the similar provision of our federal Constitution.²

The New York Assembly, at an early period, asserted a claim to superior power in questions of money bills.³ The controversy on this subject seems to have lasted for some time; but no restriction was placed on the power of the Senate to originate or amend money bills in the first constitution adopted in 1777. In Pennsylvania the existence of a uni-cameral legislature prevented this question from making an appearance. But, in 1755, when the governor ventured to prepare a tax law, the Assembly protested that the executive "neither could nor ought to *propose* a money bill."⁴

During the colonial period of New Jersey's history, the principle was established that the initiative in taxation lay with the representatives of the people, and not with the proprietary body or the governor.⁵ The State constitution of 1776 prohibited the upper house of the legislature from preparing or altering any money bill.⁶ In Maryland bitter contests had taken place between the two branches of the legislature on the subject of supply bills,⁷ and the constitu-

¹ Poore, Charters and Constitutions, I, 964.

² See Gilpin, Madison Papers, 1530-1531.

³ See Magazine of American History, III, 169; Journals of the Legislative Council, 1705, 1754.

⁴ Gordon's Pennsylvania, 315; Franklin, Historical Review, 144, 391.

⁵ Crowell, Taxation in New Jersey, 21; Mulford, History of New Jersey, 351, 352.

⁶ Poore, II, 1310.

⁷ Scharf, Hist. of Maryland, II, 12 5; McMahon, Hist. of Maryland, 297 et seq.

tion of 1776 restricted the powers of the upper house in this particular.¹

In North Carolina the lower house of the legislature seems to have possessed, at an early date, the power of passing money bills without the necessity of concurrence by the upper.² But no provision of this sort appears in the first constitution adopted by the State in 1776.³ In the legislature of South Carolina the lower house, as early as 1689, claimed the exclusive right of originating money bills, and refused to allow the upper house to amend them.⁴ At a later date all bills originated in the lower house.⁵ From 1771 to 1775 legislation was practically suspended in the colony owing to a deadlock between the lower house and the governor and Council, on account of the refusal of the lower house to expunge an obnoxious clause in a tax bill.⁶ Accordingly we are not surprised to find the power of the upper branch of the legislature limited by the provisions of the constitution of 1776.⁷

Of the other States,⁸ New Hampshire, Delaware, and Virginia restricted by constitutional provisions the powers of the upper house in the matter of money bills. The first constitutions of Pennsylvania and Georgia provided for a legislature having but a single branch, while Rhode Island and Connecticut lived on under their old charters for many years. Thus this principle was embodied in seven of the nine constitutions first adopted in States that had a bi-cameral legislature. In some of these States the upper house was prohibited from amending, as well as from originating money bills; while in others the exclusive privilege of the lower branch consisted simply in the right to originate such measures.

¹ Poore, I. 817.

² Basset, *Constitutional Beginnings of North Carolina*, 64.

³ Poore, II, 1409.

⁴ Whitney, *Government of the Colony of South Carolina*, 48.

⁵ *Ibid.*, 52.

⁶ Ramsay, *History of South Carolina*, II. 131-132.

⁷ Poore, II. 1615.

⁸ See Poore.

In the Federal Convention of 1787, after a long struggle, restrictions were placed on the right of the Senate to originate money bills.¹ From the debates in that body we learn that this privilege of the lower house was the cause of serious contentions between the two branches of the legislatures of those States in which such a restriction was made.² One of the opponents of the proposition to place such a clause in the Constitution ventured the opinion that, "These clauses in the constitutions of the States had been put in through a blind adherence to the British model."³ But these investigations have shown that such was not the case. The restrictions appear to have been in large part the result of years of conflict between the two houses of the colonial legislatures. Although two States left such a provision out of their constitutions, yet it would seem that Gerry, in a speech at the Convention, voiced the opinion of a majority of the people of the United States when he said, "Taxation and representation are strongly associated in the minds of the people; and they will not agree that any but their immediate representatives shall meddle with their purses."⁴

A final feature of this contest over the relative powers of the two branches of the colonial legislatures is of interest. It appears that the practice of placing "riders" ⁵ on appropriation bills had been in some States, at least, a common one. The earlier method by which the popular branch of the assembly had sometimes forced approval of desired legislation had been to hold back the supply bills until such approval had been secured. It is possible that the practice of using "riders" grew out of the earlier cus-

¹ See Adams, *Control of the Purse*, 176-181; Gilpin, *Madison Papers*, 1609.

² See *Madison Papers*, 1306-1315.

³ *Madison Papers*, 1315.

⁴ *Madison Papers*, 1309.

⁵ By means of "riders" it is sometimes attempted to incorporate general legislative provisions into appropriation bills so as to compel the other branch of the legislature either to accept the general legislation or to refuse the appropriations.

tom. The first constitution of Maryland prohibited the incorporation of any extraneous matters into appropriation bills. A similar provision is found in the constitution adopted by Delaware in 1792.

(F) *The Development of Unity in Budgetary Procedure.*

In certain modern countries a large measure of unity has been introduced into budgetary methods by providing in a single enactment for all matters of revenue and supply. Where such complete formal unity has not been secured, the necessity of balancing revenue and expenditure will secure a certain fundamental unity in budgetary procedure, as is the case in the United States. A formal unity, however, will secure a better adjustment of public resources and needs; and is, for that reason, desirable. This important fact has received too little attention in the United States on account of the ease with which our federal expenditures have been met from the proceeds of indirect taxes.

In the earliest periods of colonial history we can not expect to find much unity in the management of revenues and expenditures. This could not be secured until settled conditions were developed, and until regularity was introduced into financial transactions. By 1775, however, it is possible to detect considerable advance in budgetary proceedings in the direction of unity. This is important on account of the influence which it may have exerted on the procedure of the Continental Congress. It is necessary, therefore, to refer to this feature of colonial finance. These investigations have been confined mainly to the colonies of Massachusetts, New York, Pennsylvania, Virginia, and South Carolina, in which the finances had reached the most advanced stage of development found during the colonial period.

Before speaking of the budgetary methods developed in Massachusetts, it is necessary to refer to the forms and methods of taxation employed in that colony. From the

earliest times the chief reliance had been upon direct taxes, of which property and poll taxes were the principal forms.¹ These were apportioned among the various towns of the colony, and were assessed and collected by local authorities. The final receipt of these taxes was generally anticipated. In 1690, on the occasion of a tax levy of £40,000 for expenses incurred during the first of the colonial wars, the government issued treasury notes payable in one year, by way of anticipating the collection of the tax. This practice soon became regular, and the time for the redemption of the notes was gradually extended until it became thirteen years. Only a portion of the issues was redeemed each year. Thus, it was thought, the weight of taxation might be lightened by distributing the burden over a series of years. The evils of such a system finally became so great that about 1750 there began a transition to the method of resorting to loans in anticipation of the future yield of revenue measures. Thus the issue of treasury bills, which were virtually a paper currency, ceased until the time of the Revolution. Manifestly this practice complicated the budgetary methods of the colony.²

At an early date indirect taxes were introduced in the form of excise and import duties.³ These were resorted to in order to ease the burden of direct taxation, but they always formed a subordinate part of the revenues of the colony. A feature of interest is that these duties were, in the provincial period, re-enacted yearly, and were not allowed to offer the royal governor a permanent source of revenue.

The combination of direct and indirect taxes in the financial system of the colony is a point of great significance in the development of budgetary methods. The pol-

¹ Douglas, *Financial History of Massachusetts*, 59-76.

² On this subject, see Douglas, *Massachusetts*, 117-135; Felt, *History of Taxation in Massachusetts*; Sumner, *American Currency*.

³ Douglas, 32-33, 78-95.

icy of the lower house of the legislature during the first half of the eighteenth century has been characterized by Mr. Douglas¹ as "a persistent refusal to raise by direct taxation one penny more than a sum calculated, not always accurately, to be just sufficient, when added to all the other revenues of the province, to cancel maturing obligations, and in the abandonment of the constantly increasing current expenses of the government to be met by larger and larger issues of bills of credit." In this disposition to limit the levy of direct taxes to the exact amount required over and above all other receipts, there was a powerful force making for an exact adjustment of revenues to expenditures, something that can be secured only by budgetary unity. Furthermore, the apportionment of direct taxes among the towns must have furnished the representatives with an additional incentive of the same character.

Beginning with the history of Massachusetts as a royal province, we find that, for several years, the revenues were raised by grants of direct and indirect taxes, "for the defense of his Majesty's subjects and interests," and for other equally vague and general purposes. Moreover, the revenue measures of each year were commonly four in number, and there was no budgetary unity. Duties of impost and excise were granted by separate yearly acts, and a third bill regularly provided for the issue of treasury notes to meet current expenses. Finally a fourth measure imposed "assessments on polls and estates" to meet the installments of earlier issues of bills falling due within the year. Some sort of adjustment of revenues to expenditures was secured through the efforts of the lower house of the legislature to avoid levying direct taxes in greater amount than was required, after allowing for the receipts from other sources of revenue.

As we approach the year 1730, certain expenditures are

¹ Financial History of Massachusetts, 121.

made specific in object and amount, and are provided for in separate bills. Thus the governor's salary and the payment of members of the Council and House of Representatives were voted separately in bills which, after a time, came to carry with them special tax levies for these purposes. Thus, a closer control was exercised over objects of expenditure, but at the expense of budgetary unity.

In 1733¹ there appears a great advance in the direction of unity. After reenacting the law imposing impost duties, and providing for a levy of direct taxes for redeeming the amounts due on quotas of treasury bills previously issued, the legislature proceeded to bring together into a single budget the expenditures for the service of the year. The law accomplishing this was entitled: "An Act for Supplying the Treasury with the Sum of Seventy Six Thousand Five Hundred Pounds, Bills of Credit, for Discharging the Public Debts, and for Establishing the Wages of Sundry Persons in the Service of the Province." This act provided:

I. Fixed salaries for the soldiers in the employ of the province.

II. That £76,500 bills of credit should be issued, and that these funds should be devoted to the various public expenses "as ascertained or as fixed by law." These amounts were all specified, and included a reservation for future grants to be made by the legislature during the session.

III. That all balances of sums appropriated should lie in the treasury.

IV. That during each of the eight following years, taxes should be levied in an amount necessary to redeem the installments of bills of credit that should fall due annually.

Thus a large degree of budgetary unity was secured. During the entire year only two supplementary appropriations were passed, these providing for the governor's salary and for repairs on Castle William.

¹ See Acts and Resolves, II, 690.

After this date budgetary legislation retained about the same form until the last of the colonial wars broke in upon the unity which this arrangement had secured. Large supplementary grants of taxes and appropriations were often called for during these wars; and the former unity could not be preserved. After 1763 the finances were in a disordered condition owing to the large debts left by the wars. But by 1770 order was in some degree restored. The budget of 1774¹ will illustrate the final form of development in the methods of this colony. Its provisions were as follows:

I. That £14,550 should be borrowed on the credit of the province.

II. That this sum should be expended in specific amounts for purposes enumerated in the act, "and for no other purposes whatsoever."

III. That £10,300 should be assessed on polls and estates; and that the receipts from imposts should be used as a further fund for redeeming the loan of £14,550 with interest.

The only other budgetary measure for this year was an act imposing taxes for outstanding obligations incurred in previous years. Thus, at last, almost complete budgetary unity was secured.

During the following year war expenditures came in to disturb existing arrangements. Once more, as in the time of the previous wars, supplementary appropriations and additional revenue measures were necessitated. Thus unity was again destroyed. It is probably safe to attribute the growth of a unified budget in this colony to the calculating and parsimonious character of the policy of the representatives. This conclusion does not necessarily exclude all possibility of an influence having been exerted by the example of English methods. But it does seem certain that within the colony itself existed conditions which are a sufficient explanation of the course of budgetary development.

¹ Acts and Resolves, V. 390-392.

In New York indirect taxation was developed earlier than direct.¹ During the seventeenth century indirect taxes were the most important source of revenue possessed by the colony.² Gradually the general property tax was developed, but indirect taxes remained more important in New York than in any other of the northern colonies.³ The impost duties were continued in operation from year to year, as were all other revenue measures after a time. In no colony was the principle of limited revenue acts maintained with greater persistence.

Appropriations were, at first, made in gross, and applied at the discretion of the governor and council.⁵ Also there was no attempt to include all such measures in a single bill. But in 1739 appropriations were made specific both in objects and amounts, and salaries were granted to officials by name.⁶ After this date most of the expenditures are included in a regular appropriation bill prepared by each Assembly. During the colonial wars supplementary appropriations were made in great numbers, but the method of including all ordinary expenses in a single annual bill still continued.

It does not appear, however, that there was a co-ordination of revenues and expenditures in a single budget. In 1774 and 1775 we find a condition that much resembles the methods of our national government at the present day. No new revenue measures were passed in those years, while it was provided in the annual appropriation bills that the authorized expenses should be defrayed out of the proceeds of the indirect taxes collected under the laws then in operation.⁷ During the Revolution supplementary appropriations

¹ Schwab, *New York Property Tax*, 19, 104.

² Hill, *Tariff Policy of the United States*, 37, 38.

³ *Ibid.*, 37.

⁴ See Smith, *History of New York*, 425 seq.; *Magazine of American History*, III, 165-167; also a speech by Clinton, in *Journal of Council*, 1022.

⁵ Here we follow the *Laws of New York* and the *Journal of the Council*.

⁶ See *Laws of New York*; Roberts, *History of New York*, 287; Smith, *New York*, 433.

⁷ See *Laws of the Colony of New York, 1774-1775*, 61, 94.

became numerous once more, as was the case in the other colonies.

Down to the opening of the Revolution the budgetary methods of Connecticut seem to have remained in a condition of primitive simplicity. From the proceedings of the Connecticut Assembly in 1771 we can derive information on this subject during what may be regarded as a typical year. During the May session the Assembly at various times appropriated all sorts of petty sums in payment of claims and of public services.¹ Thus the colonial treasurer is instructed to purchase an iron chest for the custody of public moneys.² Toward the close of the session the Assembly authorized the payment of half of the annual salaries of the governor, deputy governor, treasurer, and secretary.³ At the October session we meet with much the same procedure.⁴ At this time also a tax is levied⁵ for "incidental charges of government," and the colonial treasurer is instructed to settle with the members of the Assembly for their expenses in attending the session.⁶ Perhaps an explanation is to be found for these primitive budgetary methods in the fact that Connecticut, in its long existence under the original charter, did not witness those contests between the Assembly and royal officials which in the other colonies proved productive of principles of budgetary procedure.

In Pennsylvania there existed a more highly developed system of finance. Here the early struggle for specific appropriations had resulted in a system of money grants specifying the objects of expenditure.⁷ But no unity existed in early times; and, in some years,⁸ we find as many

¹ Public Records of Connecticut, XIII. 424, 471.

² *Ibid.*, 426.

³ Public Records of Connecticut, XIII. 502.

⁴ *Ibid.*, 518, 557, 566.

⁵ *Ibid.*, 516.

⁶ Public Records of Connecticut, XIII. 566.

⁷ Bancroft, II. 25, 26, 27; Franklin, *Historical Review of Pennsylvania*, 32; Minutes of the Provincial Council, I. 457, 468, et seq.

⁸ *Records of Pennsylvania*, I. for 1715 and 1718.

as three or four separate revenue measures. During much of the time, also, paper money exercised a disturbing influence.

After the middle of the eighteenth century, however, considerable progress was made in the direction of budgetary unity. The specification of the objects of expenditure seems to have become more strict. By 1755¹ the methods of procedure resembled those of Massachusetts. Bills of credit were issued for specified purposes, and taxes imposed to provide a fund for the redemption of the notes. The colonial wars here, as elsewhere, proved to be a disturbing influence. But after 1763 supplementary acts became less common; and in 1775 we find but a single measure providing "for the support of government and the payment of public debts."

In the matter of budgetary development, Virginia presents nothing new. Here, as elsewhere, the earliest attempts to control expenditures took the form of specifying in revenue bills the objects for which money should be raised. After a time special appropriation bills became common. Salaries and many of the ordinary expenses came to be strictly fixed by law, but there was no system of regular appropriations for such purposes. In the direction of formal budgetary unity little progress seems to have been made. As late as 1772 three revenue laws and four special appropriations are passed during the sessions of a single assembly.²

From the year 1721 South Carolina presents interesting budgetary arrangements. After the Revolution of 1719 had overthrown proprietary control and resulted in the formation of a royal colony, the government had to be supported by taxation instead of by the proceeds of the quit rents, which had sufficed for the ordinary needs of the proprietary administration. Annual tax laws were passed at the opening of most of the fiscal years; and, after 1721,

¹ *Laws of Pennsylvania*, I. chapt. 406.

² *Hening's Statutes at Large*, VIII.

these laws included "long appropriation clauses, appropriating every penny raised to some specific object." In later times the tax bills were not prepared until several months after the close of the fiscal year. Besides these direct tax levies, the colony derived considerable revenues from impost and tonnage duties, and from other sources of a miscellaneous character. These indirect taxes were not included in the annual budget; and, consequently, complete unity was not secured.¹

These investigations, incomplete as they are, show that in Massachusetts, Pennsylvania, and South Carolina, at least, a considerable degree of formal budgetary unity was realized before the Continental Congress met in 1775. In the various colonies there existed important differences in the various stages and the final results of budgetary development. Great resemblances are also to be found, but these may safely be attributed to the existence of similar problems, which called for similar solutions. There seems to be no evidence to support the view that, to any large extent, the colonies reproduced each other's budgetary methods; or that they consciously imitated those of England. In most cases the differences of procedure are too great to admit of such a hypothesis. In Massachusetts, where perhaps the greatest degree of unity was introduced into the budget system, we have found special conditions that furnish a sufficient explanation for the establishment of a more unified procedure. It is manifestly impossible to exclude all possibility of attempts to copy English forms and methods. But, on the whole, it is safest to affirm that colonial budgetary development was shaped principally by the force of local conditions, and in accordance with local needs.

¹ On this subject see Whitney, *Government of the Colony of South Carolina*, 97 et seq.

CHAPTER III.

THE DEVELOPMENT OF A BUDGET SYSTEM BY THE CONTINENTAL CONGRESS

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The foregoing study of the results of budgetary development in England and in the thirteen colonies previous to 1775 has prepared the way for a discussion of the various steps by which the Continental Congress developed a budget system. It will be found that the various parts of the financial system of the Revolution were developed separately, but were finally brought together into a unified budget. This discussion will also show what were the forces operating to produce this result.

(A) *The Early Management of Revenue and Supply.*

On the third of June, 1775, Congress appointed a committee of five members to "bring in an estimate of money necessary to be raised" for the defense of the colonies. Four days later the committee submitted a report which was considered in committee of the whole for several days, until, on June 22, Congress resolved to issue the first bills

of credit. A month later,¹ a second committee was appointed "to bring in an estimate of the expenses incurred by the votes and resolves of this Congress." It is very probable that it was the report of this committee which induced Congress to vote a second emission of paper money.² Early in November³ another committee was instructed "to examine what money remains in the treasury unapplied, and to form an estimate of the public debts already incurred, and which will become due on the first day of June next." A few weeks later,⁴ upon the report of this committee "on the state of the treasury," the third issue of paper money was authorized. Then, in December, in pursuance of a further report, Congress urged upon the colonies the necessity of making provisions for redeeming their quotas of the bills of credit.

In the manner above mentioned, \$6,000,000 of paper money was issued by the end of 1775, this sum being intended to provide for the expenses of that year and for the debts that should be incurred up to the following June. We have next to inquire into the methods by which this money was applied. When Congress assumed the control of the struggle against Great Britain, large expenses were incurred. For some of these provision was made in special appropriation bills. Thus in June⁵ the army establishment was determined, and the pay of the officers and soldiers fixed by law. On the first day of August a number of appropriations were made, one of which provided that \$500,000 should be immediately forwarded to be applied to the support of the army in Massachusetts, in such manner as General Washington should "limit and appoint;" and that, if this sum should be expended before the next meeting of Congress, General Washington should be empowered to

¹ July 19.

² July 25.

³ Nov. 5.

⁴ Nov. 29.

⁵ Dec. 26.

⁶ June 14, 15 16; July 27, 1775.

draw on the Continental treasurer for \$200,000 additional. The other appropriations were also for lump sums, and the objects of expenditure were specified in an equally loose and general manner.

In September¹ Congress appointed a Committee of Accounts or Claims, which for nearly a year examined accounts against the government and reported the amounts due, whereupon payment was ordered. Thus was inaugurated another method of applying public money, which lasted for several years. During this time we find Congress constantly appropriating all sorts of petty sums, such as \$13 for a present to Indians, or \$12 for ferriage and horse hire. A third method of applying public funds was to advance money to the assemblies of different colonies to be expended and accounted for.² Similarly delegates and committees of Congress were entrusted with the expenditure of large sums, which were placed in their hands for definite purposes, and for which they were expected to account.³ In this way \$500,000 was expended for the first naval armament.

The revenues for 1776 were derived from further issues of bills of credit. In February,⁴ Congress, on a report from the committee on the treasury, resolved to emit \$4,000,000 of the paper money; and to appoint a Standing Committee on the Treasury, to which reference has already been made in the discussion of the administration of the finances. This body, which was generally known as the Treasury Board, soon came to act as a committee on ways and means; but first Congress resorted to another committee for that purpose. On March 13 it was resolved to appoint a committee of seven, to "inquire and report the best ways and means of raising the necessary supplies to defray the expenses of the war for the *present* year, over

¹ Sept. 25.

² Aug. 1; Dec. 12, 1775.

³ Aug. 1; Dec. 16, 28, 1775.

⁴ Feb. 17, 1776.

and above the emission of bills of credit." It has been impossible to ascertain whether this committee ever made any report. On the sixth of May, however, Congress, after resolving itself into a committee of the whole to consider "the state of the United Colonies," decided that \$10,000,000 should be raised for the service of the year. At the same time another committee of ways and means was directed to devise methods for raising the money. This committee reported three times during the remainder of the year, and in the following February;¹ and on each occasion Congress passed some measure for raising money by means of issues of bills of credit. In October, the Treasury Board reported a plan for raising funds through a domestic loan; and, during the next year, reported estimates and plans for further emissions of paper.²

During this year there was no advance over the early methods of appropriation. Large sums were still placed in the hands of individuals for the purpose of meeting public expenses.³ After July 30, accounts against the government were reported by the Board of Treasury, and the old Committee of Accounts was discharged. The work of systematizing appropriation methods was accomplished very slowly.

At the opening of 1777,⁴ Congress resolved itself into a committee of the whole "to take into further consideration the state of the treasury and the means of supporting the credit of the Continental currency." As a result of these deliberations it was resolved to urge the States to resort to taxation during the current year. In May⁵ the Treasury Board was instructed to "prepare and report to Congress an estimate of the public expenses for the present year, distinguishing in such estimate the expenses of the commissary, quartermaster, and barrack master general, and the medical de-

¹ May 9, July 22, Nov. 2, 1776; Feb. 22, 1777.

² Oct. 3, 1776; August 13, 15, Nov. 7, Dec. 3, 1777.

³ E. g. Journal of Congress, July 20, 31, 1776.

⁴ January 13, 14.

⁵ May 15.

partment;" and "to confer with the marine board and General Schuyler on this subject." Congress had not yet come to appreciate the necessity of preparing the estimates before the opening of the year; but this action was an advance over previous methods of procedure. The statements called for were to be prepared by the Treasury Board after conference with the other departments, and were to be presented in some detail. At this same time, a new committee was appointed to "consider ways and means of defraying the expenses of the present year;" and instructed to "confer on this subject with the Board of Treasury." It is not possible to determine what action the committee took. It may have presented some of the reports upon which new emissions of paper money were ordered, but the Journal of Congress does not enable us to decide. In November,¹ on the occasion of a report from the Treasury Board, Congress made its first requisition on the States, calling for \$5,000,000.

Up to this time there had been a constant effort to estimate probable expenses, and to regulate the issues of paper according to the probable needs. This is as far, however, as unity in budgetary procedure had been developed. The ease with which revenues were secured by the emission of bills of credit had not been favorable to carefulness and accuracy in adjusting revenue to needs. But with the year 1778 conditions are altered. The paper money begins to depreciate alarmingly; greater efforts are made to increase the receipts from loans; and taxes come into a position of greater importance. These facts lead to improvements in budgetary methods.

(B) *The Development of Unity in Budgetary Procedure.*

During 1778 the Treasury Board, acting as a committee on ways and means, continued to submit its reports; and they were the occasion for the emission of the paper

¹ November 22.

money issued during the year. The first half of the year saw no change in budgetary methods. But, as the depreciation of the bills of credit increased, and the financial situation became more difficult, it was evident that, in the future, the dependence of Congress must be upon taxation. To this fact we can safely attribute a change in procedure which now occurred.

In August, Congress set apart three days each week for the special consideration of the finances.¹ In the same month,² also, the Standing Committee on Finance was appointed, "to consider the state of the money and finances of the United States, and report thereon from time to time." Robert Morris was chairman of this committee, which, in November,³ submitted a "plan of finance" *for the ensuing year*. From the action taken by Congress we can infer that this plan was intended to provide, first, for the security and ultimate redemption of the bills of credit; and, second, for the expenses of the ensuing year. A diligent search among the manuscripts in the library of the State Department has brought to light only that part of the plan which relates to the bills of credit. This contemplated the withdrawal of \$46,000,000 of the notes from circulation, and the gradual redemption of the others.

Congress considered this plan in committee of the whole for many days, and finally⁴ called on the States for \$15,000,000 for the expenses of the ensuing year, and for \$6,000,000 annually for eighteen years, as a fund for sinking the loans and issues of the United States. Undoubtedly we may regard this action as a budgetary forecast and provision for the whole of the public debt, and at least a large part of the expenses for 1779. It seems probable, also, that this act carried with it the authorization of many of the regular expenses for this year. In the Journal of Congress we find no appropriations for such purposes dur-

¹ August 12, 13, 1778.

² A

³ Nov. 10.

⁴ Dec. 16, 31, 1778; Jan. 2, 1779.

ing 1779; while an act of September 15 makes it evident that expenditures are being made under the direction of the heads of departments, in accordance with the authorized appropriations.

Unfortunately, the States complied but poorly with the call of Congress for taxes. More than this, the depreciation of the paper money steadily increased, and rendered these last measures of Congress quite ineffectual. The Treasury Board brought in frequent reports, in accordance with which \$140,000,000 in bills of credit was issued during the year. By May¹ the paper had so far depreciated that Congress added \$45,000,000 to the quotas of taxes required for that year. Shortly after, on the occasion of a similar report, it was decided to open another domestic loan of \$20,000,000. By the close of the year, the issues of paper had been exhausted; and Congress was thenceforth obliged to look to taxes and to loans for the revenue necessary to conduct the government. Thus the "plan of finance" proved a complete failure, owing in large part to the refusal of the States to respond to the demands of Congress. All this, however, does not prevent the acts of December, 1778, from constituting a definite advance in the formal ordering of the national finances.

Up to this point we have not considered the foreign loans secured by the United States. These did not yield large sums until 1780; and were, at the start, devoted to the payment of interest on the domestic debt. They were not included in the annual estimates until a later period. Even then, there was a separation of the expenditures at the treasury and those made in Europe.

We now come to the provisions for the service of 1780. On October 6, 1779, Congress made a requisition on the States for \$15,000,000 monthly for eight months. In this it is noticeable how greatly the amount of the requisition has been increased by the depreciation of the bills of credit. But Congress did not dare to depend on the State

¹ May 19, 1779.

to provide sufficient taxes in money, and was fearful for the future of the paper currency. Accordingly, specific supplies were called for. On December 2, the Board of War was directed to report an estimate of the provisions required to supply the army for one year, and the Marine Committee was instructed to report an estimate of the provisions necessary for the navy. Then a committee was appointed to devise means of procuring such supplies, and it was decided to resort to specific requisitions on the States for this purpose.¹ Early in 1780² a general requisition was made for the supplies necessary for that year. Thus, despite the inattention of the States to its call for taxes, Congress continued to make provisions for the needs of the ensuing year.

In March³ Congress passed the "Forty for One Act," and practically repudiated the bills of credit. After this the specie basis was restored, and the States were called upon for \$3,000,000 in specie for the immediate expenses of government.⁴ In the last of the year provision was made for the service of 1781, and a requisition for \$6,000,000 was voted.⁵ This was payable partly in specie and partly in specific supplies. Unfortunately the Journal for this year is so incomplete that it is impossible to ascertain from what sources Congress obtained the estimates upon which this requisition was based.

At the opening of 1781 the condition of the finances was so critical as to call for immediate attention. Congress sent to the States a most earnest appeal, asking that \$879,000 be immediately forwarded for the pay of the army; and that, in the future, requisitions be promptly complied with. Early in February⁶ Congress asked for authority to lay a

¹ Dec. 11, 14.

² Feb. 25.

³ March 18.

⁴ August 26.

⁵ November 4.

⁶ Jan. 15, 1781.

⁷ Feb. 3, 7.

five per cent duty on imports, the proceeds of which should be devoted to discharging the principal and interest of the public debt. During this same month Robert Morris was appointed Superintendent of Finance, and thus a more efficient administration was secured. A protracted consideration was then given to the subject of finance. On March 16 a requisition was ordered for \$6,000,000, payable in quarterly installments, commencing with the first of the following June.

A committee was then appointed "to estimate and state the amount of debts due from the United States, with the necessary estimates for the current year, . . . in order that the same may be laid before their respective legislatures." Fortunately, this report is contained in the *Journal*;¹ and it deserves attention as the first complete financial statement that has been preserved. The report contains, first, a statement of the public debt reduced to a specie basis; second, the estimated expenses of the current year; and, third, the total revenues at the command of Congress for the whole of 1781. The necessary expenses were estimated at \$19,407,000; while the total resources, supposing that the States should pay in full the existing requisitions, were only \$17,668,000. In an earlier chapter it has been shown how far these estimates of expenditures exceeded the actual amount which the government was able to expend.²

In the fall the Board of War was called upon for estimates of the expenses of the military establishment for the ensuing year. The report submitted by the Board was referred to a committee of three members, which added the estimates for the civil list. On October 30 and November 2 Congress voted a requisition of \$8,000,000 "for the war department and civil list the ensuing year." Strangely enough, it appears that the Superintendent of Finance saw

¹ Appendix, April 18, 1781.

² See p. 175.

nothing of the estimates on which this action was founded,¹ although in former years the heads of the treasury department had been consulted in such matters. On November 17 Morris forwarded to the governors of the States this act for raising the supplies for 1782.²

It will now be necessary to refer to the development of a system of appropriations. The earliest methods of applying public moneys have been already explained.³ As time went on, and more complete estimates were formed for the service of the ensuing year, the expenditures thus authorized were made under the direction of the executive departments.⁴ Congress continued to pass laws that authorized new and unforeseen expenditures; but, by making general provision for necessary expenses, it relieved itself of the necessity of constantly appropriating petty sums, and such action became less frequent. But in appropriation bills there was little effort to specify the objects and amounts of expenditure, except in the most general way; and the greatest latitude was consequently left to the executive officers. So far as can be ascertained, it seems probable that Robert Morris was the only head of the treasury department that did not divert large sums from the original objects of appropriation, and apply them to other purposes.

As fast as the work of the government developed, current expenses were fixed by law. By repeated acts the establishment and pay of the army and navy were regulated.⁵ As the executive departments were established, the number and the salaries of the officials were determined; and the expenses of the "civil list" ⁶ thus regu-

¹ Sparks, *Diplomatic Correspondence*, XII. 8-9.

² *Ibidem*, 16.

³ See p. 234 et seq.

⁴ See *Journal of Congress*, Sept. 15, 1779; June 28, 1781.

⁵ *Journal of Congress*, June 14, 15, 16, July 25, Nov. 28, Dec. 9, 1775; May 24, Nov. 15, 1776; May 27, 1778.

⁶ This term is evidently borrowed from England, but is used in the *Journals of Congress* and elsewhere to denote the entire civil establishment. This is different from the technical meaning given to the word in the English budget, see p. 213.

lated. In 1780¹ the salaries of the entire establishment were readjusted; and, two years later, the expenses of foreign envoys and officials were brought under stricter control.²

In 1777³ it had been resolved to pay the interest on the domestic loans with the money secured in Europe. In accordance with this plan Congress was obliged each year to make an appropriation for this purpose.⁴ This continued to be done until March, 1782, when such payments could no longer be made. Private claims, during all this period, were first examined by the treasury department; and then referred to Congress, by which body payment was ordered, in case the claims received favorable action.

Thus by 1782 some degree of order had been established in the authorization of expenditures and the application of public money. The expenses of the army, navy, and civil list were provided for by a reasonable number of appropriations, most of which were included in the annual appropriation bill. The payment of interest on the public debt was authorized at more or less regular intervals, and private claims were passed upon by Congress as fast as they arose.

The budgetary legislation of 1782 now claims attention. In this it is possible to trace the skillful hand of Robert Morris. In January⁵ Congress called upon the Secretary of Foreign Affairs for estimates of the expenses of foreign ministers, with a view to exercising more control over these expenditures, which had been in the past loosely managed. In July Morris urged upon Congress the necessity of providing "solid funds for the national debt," and advocated for this purpose direct and indirect taxes, to be raised by the general government.⁶ This was in line with

¹ August 11, Sept. 13, Sept. 25.

² Journal of Congress, Jan. 2, June 5, 1782.

³ Sept. 9.

⁴ E. g. Journal of Congress, August 3, 1780.

⁵ January 2, 1782.

Sparks, Diplomatic Correspondence, XII. 211-238.

the determined effort then being made to secure for Congress the right to establish revenues of its own. It has already been seen that these efforts failed. Up to this year Congress had tried to pay the interest on the loan office debt out of the proceeds of the foreign loans; and had, from time to time, provided that bills of exchange should be drawn for this purpose. Now, however, this could no longer be done; and in September ¹ it was resolved to levy a requisition for \$1,200,000, in order to pay the interest on the whole of the domestic debt, so far as it had been liquidated. This subject was previously considered by a grand committee, consisting of one member from each State. It is interesting to notice that on this occasion no less than eight States attempted to reduce the amounts required of them, and to throw the burdens onto other States.

One month later ² the grand committee reported the estimates for 1783. These were prepared by Morris, and we have preserved to us the letter ³ in which he transmitted them to the President of Congress. It was part of the plan of Morris to secure a foreign loan for a portion of the service of the next year; and Congress had previously authorized the negotiation of a loan for \$5,000,000.⁴ The appropriations were finally fixed as follows: ⁵

For the army.....	\$5,266,509
For the marine.....	300,000
For the civil list.....	181,214
For contingencies.....	252,277
	\$6,000,000

Requisition had already been made for the \$1,200,000 necessary for interest on the domestic debt, and it remained to provide for this six millions of current expenses. It was finally resolved ⁶ that the States should be called upon for

¹ September 4, 10, 1782.

² October 16.

³ Sparks, *Diplomatic Correspondence*, XII. 238-241.

⁴ September 14.

⁵ October 16.

⁶ October 16, 18.

\$2,000,000, and that further requisitions should be suspended until the result of the attempt to secure a foreign loan should be known.

Thus the years 1781 and 1782 witnessed the establishment of a large measure of unity in the budgetary procedure of Congress. All the ordinary expenses of the government, including the greater part of the war expenditures, were provided for in a single enactment, which also fixed the amount of the requisition for the ensuing year. In 1782 separate provision was made for the domestic interest, but this did not impair seriously budgetary unity. The first steps in the establishment of this system were taken at least as early as 1778 in the "plan of finance" adopted for the service of 1779. During 1779 and 1780 Congress still attempted to appropriate in a single enactment for the expenses of the following year, and to provide the supplies necessary for this purpose. In this way a unified budget system was finally established.

At first thought one might be inclined to attribute the development of such a budget to the influence of English precedent. But the previously described investigations into the financial methods of the colonial period have shown that in one or two colonies budgetary unity was developed before 1775. If, then, we are to look upon the action of Congress as an imitation of methods elsewhere existing, it becomes necessary to admit that earlier colonial experience would naturally exercise a stronger influence than even contemporary English procedure. But such an explanation is insufficient since other elements must be taken into consideration. To these some reference has already been made.

It is evident that the introduction of really unified budget management dates to the "plan of finance" adopted in 1778. Now, it was in that year that the depreciation of the paper money, and the threatened exhaustion of this source of revenue, brought taxation into a more important position

than it had previously occupied among the possible sources of income. From this time on Congress began to make earnest efforts to secure by the system of requisitions a considerable portion of the funds necessary to carry on the war. This fact necessitated a change in budgetary methods.

The ease with which money had been obtained previously by the issue of bills of credit had rendered unnecessary an exact adjustment of revenue and supply, although some efforts had been made in that direction, as we have seen. But the development of the requisition system made such an adjustment an absolute necessity. The States had by this time begun to insist on their own claims of sovereignty; and, the first patriotic fervor abating, there had appeared those jealousies and selfish bickerings that characterized the entire history of the Confederation. No State, therefore, was willing to raise in taxes for national purposes a cent more than the amount which it believed to be its fair quota under the requisition system; and it was certain that all would insist that Congress should so adjust revenue to supply as to make it clear that all taxes demanded were reasonable and necessary. It is a matter of history that, as long as the system of requisitions was continued, the States were constantly complaining that the taxes required were excessive in amount and unfairly apportioned. In the case of the requisition made on September 10, 1782, we find eight States seeking to shift to the shoulders of others a portion of the quotas assessed upon themselves.

All this is, as we have seen,¹ a characteristic feature of the financial history of all confederations. In such unions there is always "a jealous reckoning of advantages and sacrifices" among the various members; and it is, therefore, necessary to secure an exact adjustment of income and expenditure, and an accurate apportionment of financial burdens among the different units. This is exactly what took place in the Continental Congress; and

¹ See p. 120.

we find such a budgetary procedure adopted only when it became clear that, in the future, greater dependence must be placed upon the requisitions on the States. To this fact we must ascribe the chief influence in the development of budgetary unity.

Of course, this conclusion does not exclude the possibility of outside influence. But this, if it operated at all, was unable to produce unified budgetary methods until the adoption of the requisition system made such action necessary. English and colonial experience may have served to facilitate the growth of the system that was finally developed; but the existence of such possible influences is not, in itself, a sufficient explanation of the course of budgetary development. The very conditions under which Congress existed made budgetary unity of some sort an absolute necessity; and thus the adoption of the requisition system appears to have been the fundamental cause of the development of the budget in the form in which we find it in 1782. A final fact will strengthen this conclusion. Most of the European expenses of the United States were defrayed out of the proceeds of foreign loans, and the greater part of the money so expended did not pass through the treasury. Now these expenditures were not all included in the budget. Millions of dollars were spent in this way, and never accounted for. Evidently, Congress cared very little about securing budgetary unity in any case where there was no need of immediately levying requisitions to meet the public needs.

(C) *The Budgetary Methods of the Later Years of the Confederation.*

In 1782 budgetary methods seem to have crystallized into a form which was thereafter maintained. In one point, however, we shall have to notice a retrogression which is extremely significant, as indicating a change that had taken place in the character of Congress.

In 1783 the army was disbanded, and the expenses of government began to be reduced by Morris to the lowest possible figure. But the responses of the States to the requisitions of 1781 and 1782 were very tardy and inadequate; and, even from the beginning of the year, the financial situation was extremely critical. Congress sought to provide for the funding of the public debt, but was finally¹ obliged to resolve that for the present all effort ought to be confined to providing for the interest. Then Morris was called upon for an estimate of the principal of the debt up to January, 1783.² Shortly after a committee was appointed "to consider ways and means of supporting public credit." On March 18 this committee brought in a report which was discussed for several days. Finally³ it was resolved to ask again from the States authority to levy duties on imports; to urge that by other taxes the States should provide substantial revenues of \$1,500,000 annually; and to request that all States that had not already ceded to Congress their claims to western lands, should at once do so, as a means of establishing harmony and hastening the extinguishment of the debt.⁴ This resolution was to be accompanied by an address prepared by Hamilton, Madison, and Ellsworth,⁵ in which the necessity for such action was set forth; and also by Morris's statement of the public debt.⁶

During the remainder of the year, Congress waited for a reply to its recommendations, and made no provision for the service of 1784. All the efforts of Morris, Hamilton, and others were exerted to secure from the States the power to levy the impost; but the request was again refused, and the financial situation remained unaltered.

¹ Jan. 30, 1783.

² Feb.

³ April 18.

⁴ Cf. Resolutions of Sept. 6, Oct. 10, 1780.

⁵ April 24, 29.

⁶ Journal of Congress, April 29.

Thus at the beginning of 1784 no provision had been made for the service of that year, but it was not until April that Congress made up the budget. It was desired to provide if possible for the interest on the debt as well as for the running expenses of government. Continuing the custom of 1782, the estimates were prepared by a grand committee of which Mr. Jefferson was chairman. We possess a letter¹ written by Morris to Jefferson, transmitting estimates for the civil list, which he placed at \$184,300. The budget² presented by the grand committee contained the following estimates and recommendations.

I. Necessary expenditures:

The civil department	\$107,525	
The military department	200,000	
The marine department.....	30,000	
Indian department.....	60,000	
Contingencies.....	60,000	\$457,525 33
Deficit on service of 1782 and 1783		1,000,000
Interest on foreign debt.....	\$442,648	
Interest on domestic debt, with arrears.....	3,580,030	4,022,678
Total expenditures		\$5,480,203 33

II. Resources of the government:

Balance due the government on requisition of October, 1781.....	\$5,513,488 28
Balance due on requisition of October, 1782.....	2,000,000 00

III. Revenue measures recommended:

Since these balances remained due on the former requisitions, it was recommended that the expenses of 1784 be met by calling on the States for a part of the taxes already due. The committee proposed that \$4,577,591 should be called for immediately. This would leave nearly \$900,000 of the estimated expenses unprovided for; and it was suggested that this deficiency might be met by calling on those States that were better able to pay more than their quotas assigned under the requisition, assuring them that any such surplus payments would be placed to their credit with interest. Since, moreover, a part of the money required was to be used for payment of domestic

¹ Sparks, Diplomatic Correspondence, XII. 468-478.

² Journal of Congress, April 5, 1784.

interest, it was recommended that one-fourth of the requisition should be made payable in indents, or the certificates issued by the loan officers for the interest on the domestic debt. Manifestly, this expedient would bring into the treasury no additional money income; but it would lessen the arrearages of interest, and would make it easier for the States to comply with the requisition.

Singularly enough, these estimates make no mention of foreign loans as possible resources for the year; although at about this time John Adams was endeavoring to secure a loan in Holland.¹ In the committee's report there is an admission that the requisitions of former years had been excessive in amount, and beyond the ability of the States. The committee, then, was wise in limiting the requisition to the financial ability of the States; but the recommendation that the deficiency still unprovided for should be made up by voluntary advances from the richer States, was, in the light of past experience, extremely weak and inadequate.

Although the fourth month of the year was passing, Congress delayed the consideration of these estimates for some time. A motion was made to refer the estimates to the Superintendent of Finance for his consideration,² but this was lost. We have, however, two letters³ that Morris wrote to the President of Congress and one of the other members on this subject, in the previous month, while the grand committee was preparing the estimates. Finally, on April 27 and 28, definite action was taken, and the expenditures were placed at the following figures:

For ordinary service of government..	\$457,525 33 ⁴
For interest on foreign debt.....	384,254 00
For interest on domestic debt.....	1,970,760 00 ⁵
For arrears on service of 1782, 1783..	1,000,000 00

\$3,812,539 33

¹ Bayley, *History of the National Loans*, 311, 312.

² April 5.

³ Sparks, *Diplomatic Correspondence*, XII. 478-484.

⁴ As estimated by the committee.

⁵ This omits provision for interest for the current year.

The States were then required to pay during the year \$2,670,987.89 on the balance due on former requisitions, one-fourth of this sum being made payable in indents. For the deficiency of more than \$1,100,000 no provision was made.

In these tardy and inadequate budgetary measures we have a reflection of the changed position and character of Congress at this time.¹ The war actually over, need for the existence of a general government became less apparent; and the influence and authority of Congress naturally declined. Feeble as that body had been during its entire history, it now more nearly approached complete impotency. This popular indifference and even hostility gradually reacted upon the composition and character of Congress, and long delayed and inadequate budgetary legislation was the result. For this the unreasonable timidity and incorrigible selfishness of the States were responsible.

The financial measures of the next four years are concerned with the attempts of Congress to adjust the public accounts, provide for the redemption of the debt, and secure the revenues necessary to defray the ordinary expenses of government. The accounts awaiting settlement were enormous in number and confused beyond all conception. Morris had already taken in hand this task, and numerous acts were passed providing for the adjustment of these accounts.² By 1788 some progress had been made in the work of liquidating the public debt.

Congress attempted to provide not only for the interest, but also for the principal of the debt. The receipts from the sales of the lands ceded by the States were set aside as a fund for the ultimate redemption of the principal. When it finally became evident that the right to levy federal imposts would not be granted to Congress, in accordance with its request of 1783, a final effort was made

¹ McMaster, I, 130-139; Fiske, *Critical Period*, chap. iii.

² See Bolles, I, 333-340.

to secure such a power.¹ This failing, Congress gave up all attempt to redeem the principal of the debt. In 1787 installments of the foreign debt became due,² but these had to remain unpaid until after 1789; while the interest on the Spanish and French loans fell into arrears. Interest payments were continued in the case of the Dutch debt by contracting further loans which were applied to that purpose.³

The financial weakness of the government appears all the more clearly when we come to the history of the budget during the last years of the Confederation. The weakness of the requisition system, although manifest from the very start, was admitted by Congress in a very practical way, when in 1784 it called for the balance already due from the States, instead of laying a new requisition. Some of the States had contributed much more than others; and, under such conditions, naturally objected to making further payments.⁴ There was constant difficulty in securing an apportionment of the quotas, and no final adjustment of this question was secured until after 1789. Meanwhile the sums paid on the requisitions were considered as loans from the States. In earlier chapters these subjects have been discussed more at length, and it has been shown how partially the financial demands of Congress were complied with.

In the manner of forming and voting the annual budgets we notice no important change from the procedure of the earlier period. In 1785 the estimates were prepared by a grand committee, but after that year this work was given over to the Board of Treasury, then at the head of the finance department. In 1787 and 1788 the reports of the Board were submitted to special committees before they were considered by Congress. The budgets were no longer

¹ February, 1786.

² Journal of Congress, Feb. 15, 1786; State Papers, Finance, I, 26, 27.

³ Bayley, National Loans, 313 et seq.

⁴ See Journal of Congress, Feb. 3, 1786.

⁵ Journal of Congress, Sept. 8, 1785.

formed in advance of the years to which they were to apply; and each year this work was longer delayed. In 1785 the budget was not finally adopted until September 27; in 1786 final action was delayed until August 2; in 1787 until October 11; and in 1788 until August 20. This fact of delay is significant of the difficulties under which Congress labored.

In other particulars few changes occurred. Congress continued to pass upon private claims,¹ and to make a few special appropriations outside of the annual budget.² Even in the annual acts, appropriations were authorized in the most loose and general form; and the same latitude was given to executive officials that existed in earlier days. Only a portion of the European expenses was included in the budgets. The payments of interest on the Dutch debt were made out of funds raised in Europe by loans, and only a small part of the salaries of foreign officials was paid out of the treasury.³ In this respect budgetary unity was seriously impaired; but, since these foreign expenses were not met by requisitions, there did not exist here the same demand for careful adjustment that we have found in the case of the money expended at home. In the report of September 30, 1788, we have a statement of the foreign transactions of the government.

¹ Journal of Congress, May 6, 1784; Sept. 29, 1785; July 6, 1786.

² Journal of Congress, June 3, 1784; Oct. 20, 1786; Oct. 3, 1787.

³ See pp. 184, 185.

CHAPTER IV.

CONTROL OF THE FINANCES.

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Our view of the finances of the United States at this period can be completed by a consideration of the attempts made by Congress to develop methods of financial control. Such a control is a necessary condition of any well ordered administration of a state's finances, and its exercise under the old Confederation lay almost wholly with the Continental Congress.

As we have seen, control of financial administration consists in imposing effective checks on the collection and expenditure of money and in a thorough investigation into the application of all public funds. The exercise of such a control may in part lie with the executive and judicial departments, as well as with the legislative.¹ But it has been found that, if the legislature is to have the most effective direction of financial matters, it must perform a large part of the work of controlling the administration. Otherwise, the best methods of budgetary procedure may

¹ See Goodnow, II. 140-143.

fail to secure a strict application of public moneys in accordance with the intention of the legislature.¹

Since the Continental Congress united in itself both legislative and executive authority, the problem of the control of the financial administration presented itself in a peculiar form. Congress had to deal, not with an executive department co-ordinate with itself, but merely with its own servants employed in performing the routine work of the treasury, and with the committees selected from its own members for the purpose of superintending the financial transactions of the government. Thus it lay in the power of Congress to make its control over the administration as absolute as possible, but an ignorance of the proper methods to be employed prevented the accomplishment of this end.

This result is in no way surprising. The lack of previous experience would not justify the expectation that Congress would devise means of securing an economical application of the large sums devoted to war expenditure, a task which is, under the best circumstances, attended with extreme difficulty. At this time, moreover, methods of control were very imperfectly developed in older countries. Even in England, where legislative direction of taxation and appropriations had been most firmly established, Parliament had devised only a very imperfect system of controlling the issues of public money from the Exchequer.²

From the very incomplete material which is available the following steps can be traced in the development of methods of financial control. We will first consider the constitution of the department of finance.

Since the business of the treasury was at first superintended by the Committee on the Treasury and the Treasury Board, both of which were composed of members of Con-

¹ On the general subject of financial control see, Roscher, *Finanzwissenschaft*, secs 154, 155; Bastable, 668-672; Wagner, *Finanzwissenschaft*, I. 301-334; Cohn, sec. 172; Goodnow, II. 262-295; Stein, I. 425-459, II. 54-69.

² Bastable, *Public Finance*, 668-669; Parnell, *Financial Reform*, chap. 11.

gress, that body had constant communication with the heads of the finance department; and no question of further control presented itself. In the Board of Treasury appointed in 1779, there were, besides two members of Congress, three commissioners who were not members of that body.¹ In 1781,² when a Superintendent was placed at the head of the department, the question of control became a real one; but Congress did nothing more than to prescribe with considerable minuteness the duties and powers of this official. With the establishment of the new Board of Treasury in 1784,³ Congress provided that none of its members should engage in "any trade or commerce whatsoever," a provision that has been incorporated in our present laws regulating the Department of the Treasury. This is as far as Congress felt obliged to go in the direction of placing formal restrictions on the head of the finance department. We shall see, however, that there existed other methods of control.

The subordinate officers of the treasury were required to take an oath to perform faithfully the duties attaching to their positions, and could be removed by Congress; or, in some cases, could be suspended by the heads of the department.* The "Continental Treasurers" appointed in 1775⁴ were required to give bonds in the sum of one hundred thousand dollars for the faithful performance of their office. But it does not appear that this was required of subsequent treasurers, or of other treasury officials. Until the time of Morris, the heads of the department did not have full control over these subordinate officers. This division of authority between Congress and the five members of the Board of Treasury rendered it impossible to fix responsibility, and to secure an effective supervision over the operations of the treasury.

¹ Journal of Congress, July 30, 1779.

² Journal of Congress, Feb. 7, 1781.

³ May 27, 1784.

⁴ See resolve of July 29, 1779.

⁵ July 29.

A second point of importance is the matter of public accounting and financial reports. We have already seen that, up to the time of Morris, the accounts of the treasury were confused; and were never punctually settled. The facts that Hamilton was obliged to estimate in round numbers the expenditures for 1780, and that many public officials refused to furnish any accounts of money entrusted to them, are significant of the confusion that must have existed. At the same time, there was, for many years, no regular system of finance reports. Congress from time to time called upon the treasury officials for information, and also had continually in its presence the members of the Treasury Board. But it was 1781¹ before an attempt was made to secure regular statements of the receipts of the government. With poor accounting and an absence of regular reports, it was, manifestly, impossible for Congress to exercise an effective control. We must remember, however, that, at this time, the advantages of publicity in financial transactions had not been generally recognized in most European countries;² and that the course of Congress in this matter is, therefore, less surprising.

When Morris became Superintendent of Finance, he intended to publish quarterly reports of receipts and expenditures.³ His experience had already taught him the necessity of such publicity. But the desperate condition of the treasury at the end of certain quarters led him to postpone until 1785 the publication of his quarterly statements, which we have in the Report of 1785. He did, however, secure a prompt settlement of public accounts; and furnished Congress and the States with frequent reports on financial matters. After his time publicity was to a large extent secured in all financial transactions. Yet, in the Federal Convention of 1787 there existed a feel-

¹ Journal of Congress, Feb. 9, 1781.

² See Roscher, *Finanzwissenschaft*, sec. 5; Bastable, 642, 643.

³ See Sumner, *Financier*, II. 125; Robert Morris, 114, 115.

ing that, while it is necessary to have regular reports of the public expenditures, still "many operations of finance can not be properly published at certain times."¹ Even after 1789 the House of Representatives had to engage in a determined struggle with the Treasury Department before it established its right to have laid before it at all times full information concerning the condition of the finances.² The public accounting was vastly improved by Morris; and, after his resignation, it was not allowed to fall into the confusion that had previously characterized it. In the Report of 1790 we have the accounts of the government from February 20, 1781, to September 12, 1789, when Hamilton assumed the management of the Treasury Department.

A third matter of the greatest importance in any system of financial control is that of checks on collection and issue. The weakness of the methods adopted in collecting the revenues of the government has been discussed in another place.³ The loan office receivers, who acted also as receivers of taxes, were not under definite legal restrictions until 1785; while the system of Continental receivers of taxes was of short duration. An adequate system of checks over the issue of public moneys was not established in the treasury itself until 1778,⁴ while large sums were placed in the hands of individuals and committees and expended by them. In many such cases, we have seen that no accounts were ever rendered of such expenditures. In this matter Morris instituted some of his most important reforms.

But Congress had little control over the actual objects of expenditure, owing to the fact that it did not make appropriation bills sufficiently specific. In an earlier chapter we have had occasion to consider more at length the general character of the appropriations at this time. Suffice

¹ See Madison Papers, 1580, 1581.

² See Adams, *Control of the Purse in the United States*, 185-187.

³ See pp. 191, 192.

⁴ See p. 194.

it to say, at this point, that, in spite of all systems of checks and balances between the different treasury officials who had charge of the issue of public money, there was a constant diversion and transfer of funds from the objects of expenditure contemplated in the original appropriations. We have seen that Morris alone of the heads of the department felt the evils attending such proceedings.¹ In 1788² a committee of Congress reported that large sums had been paid out of the treasury, "of which no appropriation is to be found on the public journals of Congress. Several of them remain to be accounted for."

There was still a fourth method by which Congress attempted to strengthen its control over the finances. This was the commonly employed system of investigations by congressional committees. This had been a favorite expedient with Congress from the earliest years of the war, and the method came to be generally applied to all the executive departments. In an earlier chapter³ we have considered the Standing Committee of Finance, which was appointed in 1778, "to consider the state of the money and finances of the United States, and report thereon from time to time." This committee presented frequent reports, and through it Congress gained a direct oversight of the operations of the treasury. In 1780 and 1781 there were instituted those sweeping investigations of the finance department, to which we have already referred.⁴ Thus was inaugurated another method of obtaining a more vigorous supervision of the finances.

It remains to speak of the methods of auditing the public accounts. Manifestly, without an effective system of audit, all other attempts to control financial administration must prove futile. A step was made in this direction when Congress instructed the first Committee on the Treasury

¹ See p. 204.

² Journal of Congress, Sept. 30.

³ See p. 193.

⁴ See p. 196.

to examine the accounts of the treasurers, to employ persons to keep the public accounts, and to report the state of such accounts to Congress from time to time.¹ At nearly the same² date it was required that all committees and individuals who had had public money placed in their hands should "lay before Congress an account of the expenditure of the same." As we have already seen, such accounts were in many cases never rendered.

When the treasury establishment was remodeled in 1778³ a more elaborate system of audit was introduced; and in the re-organization during the following year⁴ the methods were improved and simplified. In 1781⁵ further changes were made, and the procedure within the treasury department was given the form which it retained until the end of the Confederation.

In the earlier years of its history Congress seems to have taken no regular part in the work of auditing the accounts of the treasury officials. We have seen, however, that through investigating committees some oversight of the affairs of the department was secured. This was increased when committees were regularly appointed to prepare estimates of the annual expenditures, a subject which we have considered in the last chapter. But it is evident that Congress did not appreciate the importance of a separate examination of the accounts of public officials by legislative committees. This was done where dishonesty was suspected, as in the case of Deane. But Franklin was unable to secure a settlement of his affairs,⁶ and Morris did not secure a final settlement of his accounts as Financier until after 1789.⁷ Congress, did, it is true, investigate the administration of Morris in 1783.⁸ But Morris's report of

¹ February 17, 1776.

² January 5, 1776.

³ September 25.

⁴ July 30.

⁵ September 11.

⁶ See p. 197.

⁷ See Sumner, *Financier*, II, 203-211.

⁸ June 17, 1783.

the receipts and expenditures was not submitted until 1785,¹ and the commissioners appointed to examine it seem to have rendered no report. In 1788,² a congressional committee brought in a report of the receipts and expenditures from 1784 to 1788. This seems to have been the first step toward any system of congressional audit. Such methods, indeed, were not in use in England until after 1832; and it was twenty years after the adoption of the present Constitution that the Committee on Public Expenditure was appointed in our own House of Representatives.³ Thus the lack of an adequate system of audit intensified all the other weaknesses in the control of the finances.

¹ Report of 1785.

² September 30.

³ See Bastable, *Public Finance*, 670-671.

CONCLUSION.

The results of the financial development of the United States during the period covered by this essay are of the greatest importance for the later history of our national finances. We have been treating of a time of transition, during which thirteen comparatively isolated colonies entered into an intermediate stage of loose political connection, and finally completed an enduring federal union. In the national finances we find a series of tentative experiments that demonstrated the necessity of a substantial system of federal finance, and paved the way for its establishment. During these years the United States is found repeating the experience of similar confederations, and furnishing an interesting illustration of the financial weakness of such associations of states.

But the old Confederation served as something more than a horrible example for the profit of its successor. To the new government the old Congress bequeathed a very substantial part of its financial methods, so that the year 1789 marks no sharp break from the procedure of the earlier formative period. A brief summary will show the importance of the positive contributions derived from the time of the Confederation. It will also appear that these years are characterized by a gradual transition and continuous development from the primitive methods of colonial days to the completed system of federal finance.

The Continental bills of credit did something more than serve as an example of the evils of an irredeemable paper currency. The colonies in 1775 were unused to heavy and continued taxation, and unwilling that any central author-

ity should attempt to tax them. The bills of credit, together with the foreign loans, bridged over the years that had to intervene before the political unripeness of colonial times could be replaced by a willingness to incur sacrifices for the general good. The weakness and disorders of the Confederation finally showed the necessity of taxation directly by the general government, and led the Federal Convention to confer this power upon the Congress of the new Constitution. But this is not all. The subsequent forms of federal taxation were greatly influenced by the experience of these earlier years. The difficulty which the Continental Congress encountered in apportioning quotas of taxes directly among the States, led to a feeling that indirect taxes were the form best suited to the use of the general government. These taxes rendered an apportionment unnecessary, while, at the same time, it was thought that they were less felt and less odious than any others. Furthermore, customs duties were preferred to excise, as less inquisitorial and "most compatible with the genius and policy of free states."¹

Besides the paper money, the earliest years of the Revolution saw still another development of public credit. Domestic and foreign loans, of a size unprecedented in previous colonial history, helped to meet the extraordinary war expenditures; and to fill the gaps caused by an unwillingness to submit to the needed taxation. The practical repudiation of the paper money, and constant arrearages in the payment of interest and principal of the public loans served to impair the nation's credit. This was due, however, to the weakness and not to any intentional dishonesty of the government. The Confederation was unable to provide for the extinguishment of the mass of war indebtedness, and turned this burden over to the new government. But long before 1789 Congress sought to es-

¹ See address to the States in *Journal of Congress*, April 24, 1783. Also see the discussions of taxation in *The Federalist*.

tablish funds that should be permanently applied to sinking the public debt. Thus only the details, not the principles, of the funding act of 1790 contained anything new to our financial procedure. Moreover, the pledging of revenues for the payment of public debts antedates the Confederation, and can be found in the financial history of the colonies.¹

Turning to the administration of the finances we have found that jealousy of executive authority, especially in this field, long delayed the establishment of an effective department of finance. From this source arose disorders that nearly proved fatal to the success of the Revolution, and that finally demonstrated the necessity of unified management in this department. Congress at last gave the treasury a single head, and thus developed the principle that was incorporated into the law of 1789 that established our present Treasury Department. Furthermore, many of the details of that act merely continued the procedure of earlier years; while it was, as a whole, based upon the experience of the times of the Confederation.

In budgetary methods Congress seems to have followed the loosest form of procedure until the development of the requisition system necessitated a more exact adjustment of revenue to supply. Up to this time little seems to have been gained from the previous experience of England or of the colonies. Budgetary unity was finally established, but rather as a result of the jealousy of the States than through an appreciation of the inherent advantages of formal unity. That this was the case will appear from the readiness with which the revenue and expense sides of the budget were separated when indirect taxation was inaugurated by the First Congress in 1789.

Financial control was, during the entire period, of the most rudimentary character; and this, too, in spite of the fact that Congress united in itself both legislative and ex-

¹ See p. 216.

ecutive authority. But of all forms of modern financial procedure, effective methods of legislative control have been the latest to develop. They did not exist in England during the time of our Revolution, and in this country their development has largely been the work of the present century.

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